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THE RELATIONSHIP BETWEEN THE FINANCIAL PERFORMANCE OF COMPANIES LISTED ON THE ZIMBABWE STOCK EXCHANGE AND ECONOMIC GROWTH

BY

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A DISSERTATION SUBMITTED IN PARTIAL FULLFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF EXECUTIVE MASTERS OF BUSINESS ADMINISTRATION IN THE COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE

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Abstract

This research analyzes the financial performance of companies listed on the Zimbabwe Stock Exchange. The factors affecting the financial performance of the listed companies were looked at in detail. Moreover, the relationship between the financial performance of listed companies and economic growth was established. Financial performance was measured using ROA and ROE. Data from the financial statements of the selected companies was used in this research. Questionnaires were administered to analyze the financial performance of the listed companies and to explore the major factors that affect the financial performance of these companies. Interviews were also carried out as follow ups to gather the complete information. The research also sought to discover the relationship between financial performance of the listed companies and economic growth as measured by GDP. The research focused on three listed companies in the industrial sector listed on the ZSE. The data used in the research was mainly obtained from the ZSE database and the respective firms' websites. The study population was 103, composed of 66 Zimbabwean Chartered Financial analysts and 37 registered stockbrokers. Non-probalistic sampling was used. A sample size of sixty participants was drawn from the population using the survey sample size calculator. Statistics on the rates of economic growth was obtained from Zimstats. The analysis of the quantitative data was done using descriptive and inferential statistics utilizing the SPSS. Descriptive statistics that were drawn included percentages, means, standard deviations, minimums and maximums. The results were presented using tables and analyzed using SPSS and charts. The analysis revealed that there is a strong positive relationship between financial performance and economic growth as evidenced by the correlation coefficient of 1 between financial performance (as measured by ROA and ROE) and GDP growth. The major factors affecting the financial performance of the listed firms were also obtained from survey responses and these included firm size, firm age, leverage, ownership structure and liquidity. The study depended on the published financial data of the listed companies as well as empirical data collected. The study is of crucial importance to determine the relationship between the financial performance of listed companies and economic growth ensuring that listed companies operate with a common goal, which is to drive economic growth. The study findings are fundamental in assisting investors to identify and make informed decisions based on the performance of listed companies in Zimbabwe regarding investments. This research contributes to the firm financial performance knowledge in several ways. First, it provides evidence of the relationship between economic growth and firm financial performance. It also explores the factors that affect the financial performance of listed companies in Zimbabwe. It is important for the policy makers to know the factors that affect the financial performance of listed companies and put measures that enable listed companies to perform at the maximum of their abilities and thereby contribute to the economic growth of the country.

Key Words: Financial Performance, Stock Market, Economic Growth, Return on Equity, Return on Assets.

Declaration Page

I declare that this dissertation is my original work except where sources have been cited and acknowledged. The work has never been submitted, nor will it ever be submitted to another university for the award of a degree.

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Dedication

The research is dedicated to my father, who taught me that the best kind of knowledge to have is that which is learned for its own sake. I also dedicate it to my mother, who taught me that even the largest task can be accomplished if it is done one-step at a time.

List of Acronyms and Abbreviations

AUREC	Africa University Research Ethics Committee
CAFCA.zw	CAFCA Limited
GDP	Gross Domestic Product
GNP	Gross National Product
GBH.zw	General Beltings Holdings Limited
IMF	International Monetary Fund
MSHL.zw	Masimba Holdings Limited
RBZ	Reserve Bank of Zimbabwe
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SECZ	Security Exchange Commission of Zimbabwe
SPSS	Statistical Package for Social Science
ZSE	Zimbabwe Stock Exchange
ZIMSTATS	Zimbabwe National Statistics Agency

Definition of Key Terms

Capital Market: The part of a financial system concerned with raising capital by dealing in shares, bonds, and other long-term investments.

Capital Structure: This refers to how a firm finances its assets with long-term debt, preferred stock and common equity (Moyer, McGiugan, & Kretlow, 1999). Simply put, it is the long-term sources of debt and equity financing.

Economic Growth: An increase in the amount of goods and services produced per head of the population over a period.

Financial Performance: This is the process of measuring the results of a firm's policies and operations in monetary terms (Erasmus, 2008).

Ratio: A quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by comparing information contained in its financial statements.

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CHAPTER 1 INTRODUCTION

1.1 Introduction

The effectiveness and performance of a firm's administration can be reflected in its financial records and reports. The stock exchange market represents the capital market of a country hence the financial performance of listed companies is crucial to the functioning of the economy. Over the past decades, Zimbabwe has suffered economic downturn characterized by negative economic growth, high unemployment rates and inflation (Nyarota, Kavila, Mupunga, & Ngundu, 2016). The research captures these economic problems in a bid to analyze the financial performance of listed companies in Zimbabwe and to explore the major factors that affect financial performance. This chapter gives the background to the study explaining what financial performance is. The background of the study is explained in detail. The statement of the problem, objectives of the study, research questions, delimitation and limitations of the study, basic assumptions, significance and justification of the study are also discussed in this section.

1.2 Background to the Study

Financial performance analysis is the process of determining the operating and financial characteristics of a firm in relation to accounting and financial statements (Bhunia, 2011). The objective of such exploration is to determine the effectiveness and performance of a firm's administration as reflected in the financial records and reports. The analysis attempts to measure the firm's financial performance and other indicators that the business is conducting and ensuring enough returns to the shareholders to maintain at least its market value and contribute positively to economic growth.

A company's financial performance is not only important for the investors but also for the scholars as it is important to understand the factors affecting financial performance of the firms. Financial performance can also be defined as the measure of the financial health of the organizations and it shows the performance of the executive leadership of the company. The higher the financial performance of the company the more effective and efficient the company is in using the resources and its contribution at the macro level in the country's economy.

The market of stock is one of the most significant aspects of the economy as it offers long-term as well as short-term capital to companies and investment opportunities to both primary and secondary investors. Trading in the stock market is well organized and regulated by the Stock Exchange Authorities. The returns from equity investments vary to the movement of share prices, which depend on various factors. The factors could be internal or firm specific such as earnings per share, dividends and book value or external factors like inflation, economic development, interest rates, foreign exchange rates as well as government regulation. An improvement in the stock market performance could indicate an improvement of the macroeconomic factors of a country while on the other hand it could also be a consequence of economic growth (Barasa, 2014).

The Zimbabwe Stock Exchange (ZSE) exists to mobilize long-term capital and to provide an efficient and reliable securities market. It was established in 1896, and is regulated by the Securities and Exchange Commission of Zimbabwe (SECZ).

The ZSE provides facilities for raising long-term capital for Government and industrialists to finance development projects and for expansion and modernization of industries respectively. This means that the ZSE is a place where long-term securities of varying forms are traded. The ZSE provides all necessary facilities, rules and conducts for healthy competition and growth of the market. Therefore, the ZSE is an intermediary between suppliers of funds and the investors of long-term funds. This allocative function of the ZSE is critical in determining the overall growth of the economy. If capital resources are not provided to those economic areas, especially industries where demand is growing and which are capable of increasing productivity, then the rate of expansion of the economy will inevitably suffer (Alile, 1996). The stock market therefore, plays a central and indispensable role for which it is described as the hallmark of the Zimbabwean capital market.

Financial Performance

The financial performance is the blue print of the financial affairs of a business concern and, it reveals how a business has prospered under the leadership of its management. It shows the act of performing the financial activity of an organization. In a broader sense, it is a process of measuring the result of a business's policies and operations in monetary terms. The financial performance is also useful for measurement of the overall financial health of the organization over a given period. This technique plays a vital role in comparison with other industries. The analysis of financial performance is not only confined to the quantitative traditional methods of ratio analysis, cash flow statement analysis and fund flow statements analysis, but also qualitative factors like efficiency and effectiveness. Common examples of tools of financial performance measurement include Return on Assets, Return on Equity, operating income, earnings

before interest and taxes, and net asset value. It is important to note that no one measure of financial performance should be taken on its own. Rather, a thorough assessment of a company's financial performance should be taken into account using many different measures including qualitative measures.

Financial performance analysis can also be defined as the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. Quarden (2004) argued that financial performance analysis helps in short-term and long-term forecasting and growth can be identified with the help of financial performance analysis. To establish financial performance, the analyst needs to consider analyzing financial statements of the organization. The analysis of financial performance is a process of evaluating the relationship between the component parts of financial statements to obtain a better understanding of the firm's position and performance. This analysis can be undertaken by management of the firm or by parties outside the organization namely, owners, creditors and investors.

Financial performance analysis uses measurement ratios such as asset utilization or efficiency ratios, liquidity ratios, financial efficiency ratios, profitability ratios, solvency ratios and coverage ratios to evaluate an organization's financial performance (Bekana, 2012).

The main objective of financial performance measuring is to determine the operating and financial characteristics and the efficiency and performance of economic unity management, as reflected in the financial records and reports (Amalendu, 2010).

Financial ratio analysis method is an important measure to financial performance analysis in the economic units. The ratio analysis method is the most commonly used financial tool to evaluate the current and past performance in the economic unit and to assess its sustainability (Dick & Wang, 2000). It is one of the most important analytical tools of finance, which provides managers and executives with important insights regarding overhead cost structure, ability to raise capital, adequacy of working capital and contingency reserves, and efficient use of assets through the evaluation of a set of financial ratios, observations of trends in those ratios, and comparisons to average values for other companies in the industry. This method is a productive starting point for assessing financial strengths and weaknesses, creditworthiness, and other attributes of a firm based on past performance. Ratio analysis helps to determine the performance of liquidity, profitability and solvency position of economic units and it provides all assistance to the management to fix their responsibilities (Periasamy, 2005).

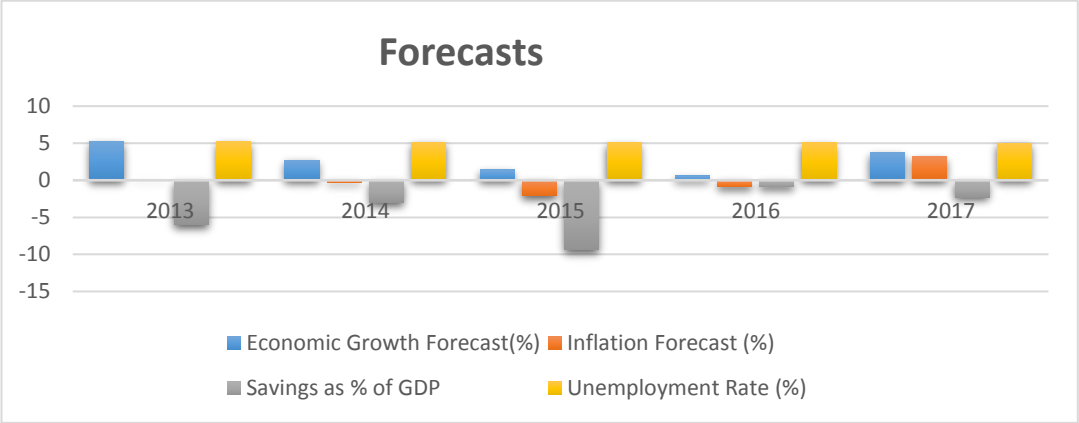
1.3 Statement of the Problem

The relationship between the financial performance of the capital market and economic growth is an important subject of analysis and debate in the academic literature. Real GDP growth averaged 10% between 2009 and 2012, dropped significantly to 3% in 2014 and declined further to 0.6% in 2016. Zimbabwe's deflation was driven by factors such as the continuous appreciation of the United States dollar against the local currency, falling international oil and food prices, (Nyarota, Kavila, Mupunga, & Ngundu, 2016). The financial performance of the majority of companies listed on the Stock Exchange have been unfavorable as evidenced by their published financial statements. The research seeks to analyze the financial performance of these listed companies and establish if the financial performance of

listed companies contributes to economic growth. If the low GDP growth in Zimbabwe is not addressed accordingly, it could continually affect the standards of living of Zimbabwean citizens. Economic growth in a modern economy hinges on an efficient and effective financial sector that pools domestic savings and mobilizes capital for productive projects. The absence of effective capital market could leave most productive projects, which carry developmental agenda unexploited.

Zimbabwe's economic growth fell from 5.4% in 2013 to 0.6% in 2016 (Worldbank, 2016). Zimbabwe's economy began a downward trend that saw a decline in Gross Domestic product (GDP). (International monetary fund, 2015). Consequently, Zimbabwe's unsustainable fiscal deficit widened from 8.5% in 2016 to 5.2% in 2017 and was projected to surpass that level in 2018. The current account deficit narrowed for three successive years to 2017 (Worldbank, 2016). Over the period from 2013 to 2017, the economy of Zimbabwe declined by about 40%. All these problems need to be addressed for Zimbabwe to get back on its feet and to start growing its economy. The graph below depicts forecasted levels of inflation, savings as a percentage of GDP and economic growth over the period from 2013 to 2017.

Figure 1. 1: Forecasts (2013-2017)



Inflation

Zimbabwe's inflation rate was at 0.1% in 2013, dropped into negative for the three preceding years to 2016 recording a lowest value of negative 2.5 % in 2015. It then rose to 3.5% in 2017.

Figure 1. 2: Zimbabwe Inflation forecast v Actual (2013-2017

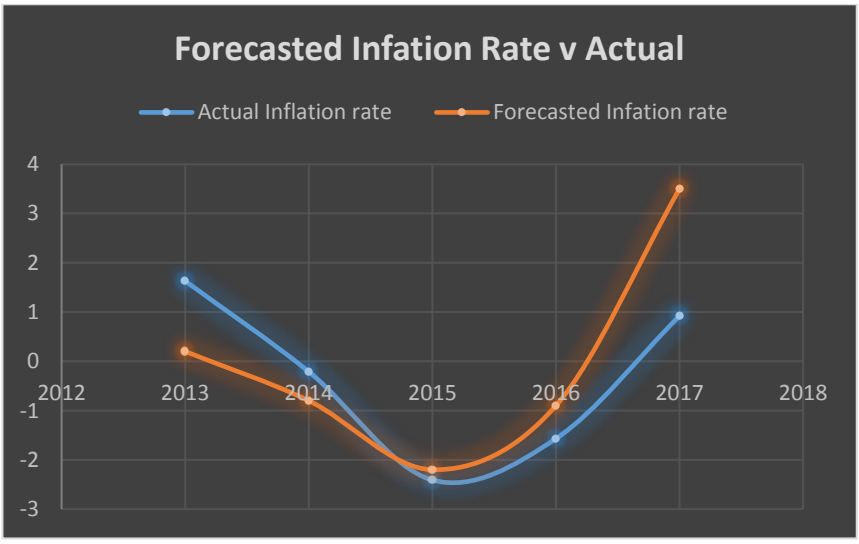


Figure 1.2 compares the forecasted inflation rate and the actual rate between 2013 and 2017. The actual rate was on a downward trend between 2013 and 2015. It reached its lowest level in 2015 and then began on an upward trend between 2015 and 2017.The negative inflation has a negative effect on the rate of employment as it increases the

real value of debt and may also also aggravate recessions and lead to a deflationary spiral. The gap between the forecasted inflation rate and the actual depicts that the Zimbabwean economy did not perform as expected over the period under consideration.

Savings as a percentage of GDP

The savings as a percentage of GDP for Zimbabwe was negative over the whole period under consideration recording a lowest of minus 9.3% in 2015, which is clearly a bad sign for the growth of the country's economy. In 2013 savings as a percentage of GDP was minus 6%. It moved to minus 3% in 2014 and dropped drastically to minus 9.3% in 2015. In 2016, the savings as a percentage of GDP was minus 0.8%. This implies that over the period between 2013 and 2016, there were no savings in Zimbabwe; rather current consumption was financed from savings from previous periods.

Economic Growth

The forecasted economic growth between 2013 and 2017 fluctuated at around an average of 3.5%. The lowest growth was forecasted at 0.6% in 2016.

Figure 1. 3: Zimbabwe GDP Growth Forecast v Actual GDP Growth 2013-2017.

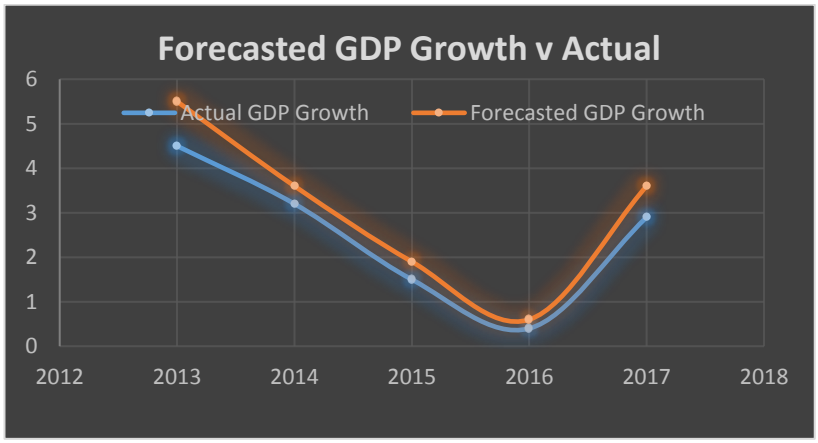


Figure 1.3 above compares the projected GDP growth to the actual growth rates between 2013 and 2017. The projected rates were consistently higher than the actual rates over the whole period. This means that the Zimbabwean economy did not grow as expected between 2013 and 2017.

Rate of Unemployment

The unemployment rate was on a downward trend falling from 5.2% in 2013 to 5.01% in 2017, a decrease of 0.19%. Unemployment is a huge problem, which affects the economic growth of the nation. It has unfavorable effects that include labor exploitation, industrial disputes, political instability, increase in poverty, loss of human resources and social problems among other undesirable effects.

The Capital market connects the monetary sector with the real sector and therefore facilitates growth in the real sector and economic development. The Zimbabwean economy is at a point where it really needs to be resuscitated hence it should start with the capital market.

Financial performance measurement has been discussed as a key priority in most economic decision making relating to both public and private companies. Financial performance measurement is based on many decisions such as executive compensation, stock prices, stock risk, decisions related to investment, and many other cases. One of the main tasks of the managers is decision making, they should decide to plan, organize and run the organisations that they work for. These decisions should be based on performance criteria and indicators in accordance with the organization's operations (Azarbaijani, Soroushyar, & Kopaei, 2011). Understanding the important criteria for evaluating the performance and its indicators is useful for managers, investors, financial creditors such as banks. In order to address the goals of the organization performance measurement plays a crucial role. In addition, financial performance has been one of the main interest of stakeholders in companies. Corporate financial performance in the future can be a very useful aid to their decision-making in buying and selling stocks, and serves as a warning to managers to improve their performance (Azarbaijani, Soroushyar, & Kopaei, 2011).

In any organization and business unit, there are collections of activities and factors that have a strong impact on the performance of the firm. So this collection should be evaluated for better performance of the firm. In today's competitive world, the only requirement for survival and participating in activities especially economic activity is accuracy and having efficiency. This will not be achieved unless with the planning, monitoring and ongoing evaluation of activities, because it is within this process that the capabilities and shortcomings are evident and can be treated before the occurrence of the event. According to the discussed matters, this question would be asked whether

there is a significant relationship between the financial performance of companies listed on the ZSE and GDP growth in an economy.

This study is therefore expected to contribute to the fundamental debate on the factors affecting the financial performance of listed companies, and ascertain the specific relationship between the performance of listed companies and GDP growth in Zimbabwe.

1.4 Research Objectives

1. Identify the factors that affect the financial performance of companies listed on the on the Zimbabwe Stock Exchange.
2. Determine whether there is a relationship between economic growth and the financial performance of companies listed on the Zimbabwe Stock Exchange.
3. Explore the operating conditions that should exist to enable the ideal financial performance of companies listed on Zimbabwe Stock Exchange.

1.5 Research Questions

1. What are factors that affect the performance of companies listed on the ZSE?
2. What is the relationship between the growth of the economy and financial performance of companies listed on the ZSE?
3. What are the necessary operating conditions that enhance the financial performance of companies listed on the ZSE?

1.6 Assumptions

The following assumptions underpin this research study:

i. There is a relationship between financial performance of Capital markets and economic growth.
ii. Capital markets are represented by companies listed on the stock exchange.
iii. The sample chosen is assumed to be a true representative of all the firms listed on the ZSE.

1.7 Significance of the Study

This study is useful in establishing whether the financial performance of companies listed on the ZSE have the potential to drive economic growth. The study also brings stock market debate in the Zimbabwean context. It addresses key research questions that have been raised by Government and other policy makers in Zimbabwe. It is also expected to lead to formulation of policy recommendations towards development of a more efficient and growth enhancing ZSE. Moreover, the findings obtained from this study are expected to help academicians and researchers in doing further research. The study also serves as a guide for future reference for both practitioners and academicians who are doing research on similar topics.

1.8 Delimitation of the Study

The research study focused on companies that are listed on the Zimbabwe Stock Exchange. Companies in the industrial sector which is one of the biggest contributors to the economic growth were considered. Amongst the eighteen companies listed in the industrial sector, only three (CAFCA, Masimba Holdings and General Beltings Holdings) were considered. The researcher focused on these three companies within

the industrial sector as their services are considered to be the most vital to the functioning of the Zimbabwean economy and thereby drive economic growth the most. CAFCA supplies cables and allied products for the transmission and distribution of electronically generated energy and information. General Beltings is the sole manufacturer of conveyor belting in Zimbabwe and virtually supplies all the country's requirements. Masimba Holdings is into buildings and civil engineering. These three were considered to be good representatives of all the listed entities on the ZSE. Due to limited time to carry out the study, the researcher could not study all the individual companies listed on the ZSE.

1.9 Limitation of the Study

The constraints encountered by the researcher in this study included the fact that the methodology carried out could be affected by the accessibility of the respondents during the administering or interview processes and hence act as a limitation. The researcher however ensured that whenever there was need to adjust instruments, the overall purpose of the study would not be lost. Moreover, the study was based on historical data, so its predictive value may be limited. The study was also geographically limited to Harare as this is where most of the listed companies are head quartered. The period of study was restricted to five years from 2013 to 2017 as the financial statements for these periods was readily available for analysis.

CHAPTER 2 REVIEW OF RELATED LITERATURE

2.1 Introduction

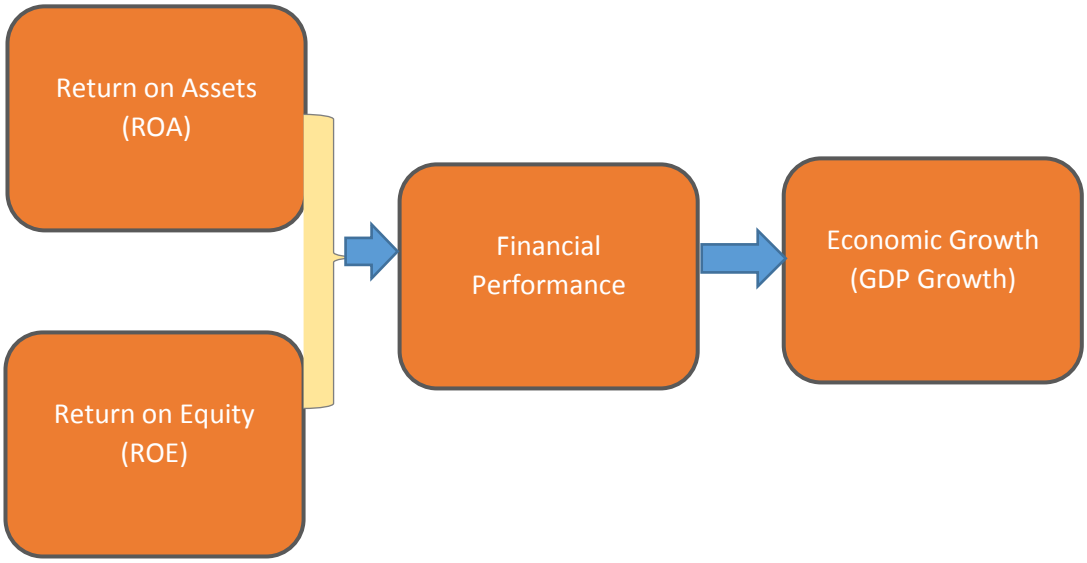
This chapter seeks related studies carried out earlier and in different environments. It comprises of the introduction, some definitions, review of literature, as well as empirical literature on the analysis of the financial performance of companies listed on the ZSE. Under the conceptual framework, the concept of financial performance is discussed. The researcher primarily focused on the conceptual framework of financial performance in detail. The concept of financial performance, process of financial performance, tools & techniques of financial performance analysis, and ratio analysis are dealt with broadly in this chapter. The concept of economic growth is also touched on.

2.2 Conceptual Framework

Levine (2005) expressed that economic growth would firstly facilitate formation of financial markets and then the financial market would contribute to economic growth. Financial performance variables were taken as the sovereign variables while the economic growth was the dependent variable in this study. The financial market performance was measured using ROA and ROE as the models while the economic growth was evaluated by the growth of GDP in real terms. Figure 2.1 overleaf depicts the relationship between financial performance and economic growth.

Figure 2. 1: Conceptual Framework

Independent Variables *Dependent Variable*



2.2.1 Return on Assets (ROA) (net profit/total assets)

Return on assets is a profitability ratio that provides how much profit a company is able to generate from its assets. In other words, ROA measures how efficient a company's management is in generating earnings from their economic resources or assets on their balance sheet. ROA is shown as a percentage, and the higher the ratio, the more efficient a company's management is at managing its balance sheet resources to generate profits.

The reason for choosing this variable is that the return on assets measures the effectiveness of the economic unity in using its assets to generate profit especially manufacturing, the higher this ratio, the better the financial performance of the entity as it indicates the management's efficiency in using its assets to generate profit. It represents the ratio of how much a firm has earned on its asset base, and the return on assets. ROA was used in this study as an independent variable because accordingly the

net profit in relation to the selected firm's asset base is a good way to measure the extent of returns on investments made in the firms.

ROA shows the ability of management to acquire assets at a reasonable cost and invest them in profitable investments (Ahmed, 2009). The ratio indicates how much net income is generated per dollar of assets invested. Return on assets indicates the profitability on the assets of the company after all expenses and taxes have been deducted (Vanhorne & Wachowicz, 2008). It is a common measure of financial performance that is widely used in the analysis of financial performance. (Ross, Westerfield, & Jaffe, 2002). ROA also measures how much the firm is earning after tax for each dollar invested in the assets of the firm. That is, it measures net earnings per unit of a given asset; moreover, it also measures how the firm can convert its assets into earnings (Samad & Hassan , 2000). Generally, a higher ratio means better financial performance and efficient utilization of the assets of the firm and a lower ratio is an indicator of inefficient use of assets. Companies can increase their ROA by increasing profit margins or asset turnover but it cannot be done simultaneously because of the effects of competition and the trade-off between turnover and margin. Therefore, companies that maintain higher ROA will be more profitable.

- **ROA = (Net Profit/Total Assets) x 100**

2.2.2 Return on Equity (ROE) (net profit/ total equity)

This ratio indicates how well the firm has used resources of owners in a given period. It also gives the shareholders an idea of the return they are getting from the funds they have invested in the entity. It is useful for inter-firm and inter- industry comparisons. ROE is one of the most important indicators of a company's profitability and growth potential. It can also be defined as the rate of return to shareholders or the percentage return on equity invested. Return on equity indicates the profitability to shareholders of the company after all expenses and taxes (Van Horne & Wachowicz , 2005). It measures how much the firm is earning after tax for each dollar invested in the company. In other words, ROE is net earnings per dollar of equity capital (Samad & Hassan , 2000). Generally, higher ROE translates to better financial performance. However, a higher return on equity may be due to debt (financial leverage) or higher return on assets. Financial leverage creates an important difference between ROA and ROE in that financial leverage always magnifies ROE. This will always be the case as long as the ROA (gross) is greater than the interest rate on debt (Ross, Westerfield, & Jaffe, 2002). It is therefore of great importance to analyze the two measures in conjunction with each other so as to get the full picture of the entity's financial performance. Usually, there is higher ROE for high growth companies.

The reason for choosing this variable is that one of the most important profitability metrics is return on equity. Return on equity reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet. A business that has a high return on equity is more likely to be the one that is capable of generating cash internally and thereby will be financially stable. For the most part, the higher a company's return on equity compared to its industry, the better.

One of the ways to measure the profit enjoyed by shareholders is by using return on equity ratio, the reason is that the return on equity ratio is comparable between companies and can indicate the profitability of one industry with the other

- **ROE = (Net Profit/Total Equity)x100**

2.2.3 Financial Performance

Financial performance is a combination of finance and performance. The financial component relates to money and management of those funds, whilst the concept of performance refers to the act of performance, execution, accomplishment or fulfillment. In a wider sense, performance refers to the accomplishment of a given task measured against a given standard of accuracy, completeness, cost and speed (Myers & Maijuf, 1984).Albans (1978) defined performance as the efforts extended to achieve the targets efficiently and effectively. The achievement of targets involves the integrated use of human, financial and natural resources. Performance can be said to be a general term applied to a part or to all the conducts of activities of an organization over a period, often with reference to past or projected costs efficiency, management responsibility or accountability (Erich, 1979).

The financial performance of a firm is significant as it reveals the sustainability of the enterprise (Karimi & Masoud, 2008). It is an indication of whether a firm is a going concern or not. Financial performance analysis is critical not only to the few selected individuals or firms but to the whole sector as well as being an indicator of how the economy is performing (Barker, 2004). The main proxies used in determining financial performance include ROA, which is a proportion of total assets to the total profit

generated by the firm in that particular financial year. The other one is ROE, which is a proportion of the total profit to total equity financing (Barker, 2004).

Financial performance of an organization does not just play the function to raise the market value of that particular organization but also direct development of the financial sector, which finally leads to success of the market specifically acting as an engine of economic growth. Several research workers have presented affirmative relationship for financial improvement and economic development and negative connection between economic distress and development. Efforts to reorganization of finance paid off in high competence and development (Caprio, Laeven, & Levine , 2007). Financial performance is very important in nature for the financial enlargement as it facilitate funds recruitment. An established and well-organized fiscal sector signifies resourceful distribution of funds establishment of growing financial performance which leads to improved procedures and role of the business in the economy. The stock exchange as a part of economic system provide capital resources in the financial system and exerts effort for the growth of the nation.

Financial performance represents the operation to carry out monetary actions. Generally, financial performance indicates measures to which economic goals being or has been achieved. Economic activities are course of action of measuring the outcome of an organization's guidelines and action in fiscal shape. It is used to calculate an organization's overall economic fitness over a particular period. The financial performance of the organizations can be calculated by its economic outcome and by its size of earnings. Risk and profitability are two main components, which together decide the significance of the organization. Financial conclusion, which

enlarges uncertainty, will reduce the value of the organization and on the other hand, financial conclusions, which boost up the profitability, will enlarge value of the organization. Risk and profitability are two essential elements of a business organization.

The financial performance can be said to be the blue print of the financial affairs of a business concern and, it reveals how a business has grown under the leadership of its management. It shows the act of performing the financial activity of an organization. In other words, it can be said to reveal whether the financial objectives of the firm have been achieved or not. In a broader sense, it is a process of measuring the result of a firm's policies and operations in monetary terms. The financial performance is also useful for measurement of the overall financial health of the organization over a given period. This technique also plays a vital role in the comparison with other industry participants. The analysis of financial performance is not only confined to the quantitative traditional methods, which include ratio analysis, cash flow statement analysis and fund flow statements, but also qualitative factors like efficiency and effectiveness can be used to analyze the financial performance of listed companies.

Financial performance indicates a problematic concept in terms of definition as well as quantification. It explains an output of an activity and the appropriate measure selected to assess the firm performance in accordance with the objectives of the organization (Burca & Batrinca, 2014). The researchers in strategic management have used different models to analyze the financial performance of an organization, yet, there is no consensus on what constitutes a valid set of performance criteria (Ostroff & Schmitt, 1993).

Computing results of a firm's policies and operations in monetary terms constitutes financial performance where the results are reflected in the firm's return on investment, return on assets and value added (Walker, 2001). There are several measures of a company's financial performance as argued by (Majali & Alamro, 2012). Examples include return on sales, return of assets and return of equity, which reveals how much an entity earns relative to its sales, clarifies the ability of an entity to make use of its assets and discloses what profit the entity's investors get for their investments to the company respectively. A company's performance can be assessed in three different ways (Walker, 2001). The first being its productivity or inputs being efficiently processed into outputs. The second is the level in which the company's earnings outnumber its costs, commonly known as profitability. Accounting returns were calculated using return on assets (ROA) and revealed that ROA, which measures the efficiency of assets in bringing in income and can be widely used as a measure of financial performance by analysts of the market (Cohen, Chang, & Ledford, 1997).

The financial performance of firms can be measured in various aspects. The capital structure and the operational capacity have become the mainstreams in studying the firm's performance. Degryse, Goeji, & Kappert (2012) documented that capital structure is the most important strategic decision for firm management. Feng, Ghosh, & Simans (2007) used the financial information of listed real estate companies that ranged from 1991 to 2003 in their analysis of performance where they used book leverage (calculated as total debts over total assets) as well as market leverage (calculated as book debts divided by total assets minus the sum of book equity and market equity) to measure the capital structure and established that the Trade-off

Theory is fitted in the management and the best capital structure will not exist in the long term.

Ebimobowei, Okay, & Binaebi (2013) took thirty-two firms listed on the Nigeria Stock Exchange market to study their financial performance. In the research, ROA and ROE were used as measures of financial performance; capital structure was measured by short-term debt ratio, long-term debt ratio and total leverage. The results from the study showed that each variable in the capital structure has a negative influence on financial performance and concluded that each of the firms should use optimal capital structure in order to maximize equity. Simiyu & Huo (2013) studied ninety real estate firms listed in Shanghai and Shenzhen Stock Exchange Market and discovered that the Pecking Order Theory is implied in the management, for the firms prefer the internal financing.

In the study of operation capacity, Kinney & Wempe (2002) investigated the relationship between just in time and the financial performance of the entities and found that lowering the scale of inventory can increase the inventory turnover rate and therefore improve the ROA. Klingenberg, Tomberlake , Geurts, & Brown (2013) analyzed the operational innovation and the financial performance in a critical way. Asheghian (2012) used ROA, ROE and ROI to represent the financial performance in analyzing the financial management performance between firms in the United States of America and in China. The size of the firm was also found to influence the financial performance to a great distance. Zietun & Gang (2007) also confirmed that the size of a firm has a positive influence on the firm's financial performance. This is due to diversified investment, better access to capital and the Economies of Scale Effect.

Profitability can be defined as the final measure of economic success achieved by a firm in relation to the capital invested in it. This economic success is determined by the magnitude of the net profit accounting (Pandy, 2005). To achieve an appropriate return over the amount of risk accepted by the shareholders, is the main objective of companies operating in capitalist economies. After all, profit is the propulsive element of any investment in different projects. The assessment of profitability is usually done through the ROA and ROE, which is the ultimate measure of economic success.

The financial state of the business under question is regarded as a multi-faceted yield of their whole performance. This output is presented using ratio indicators of activity, market value, liquidity, profitability and indebtedness. All of these are based on the synthetic indicators of financial accounting, demonstrating how complex the subject's performance interpretation. A financial situation analysis is the foundation of the company's economic performance analysis and usually proceeds down to primary fields and results as effectiveness, efficiency, production capacity use as well as supplement management. Financial analysis can be a tool of "health" diagnostic that detects a company's strengths and weaknesses, providing critical information to the management of the business and its investors (Vlachynsky, 2009). Sedlacek (2009) understands that a company's financial analysis as a technique to evaluate the management of finances, in the course of which the figures acquired are graded, aggregated and compared to each other and their relationships further quantified, with the objective to find causal connection between the data variables.

Information attained during financial analysis enables analysts to make conclusive deductions regarding a company's financial situation and general management, hence building a background for decision making by management (Sedlacek, 2009). The main purpose of analyzing company finances lies in defining assets and the financial position as well as to formulate inputs for management's decision-making. The intricacies and constant implementation are the vital necessities of financial performance analysis (Hrdy & Horova, 2009).

A firm's financial position is a diverse, complex and multifaceted phenomenon; subsequently this diversity is reassigned into the process of financial performance. Users of the results obtained from the analysis decide on the indicators to select and utilization priority of individual sections based on the intention and the demand (Baran, 2011).These can be grouped as investors, management, employees, lenders (banks or suppliers), customers and debtors, institutions of state and public administration, external analysts such as auditors and the media (Baran, 2008).

Reviewing of a company's financial situation is declared by the financial indicators system, which have to be in order and designed to reflect all the essential components of the financial situation. This therefore means the ratio indicators are used for a description of the fiscal state. The ratio indicators permits proportional investigation of the company as compared with other similar companies or with similar indicators for the relevant area. The sum of ratio indicators can be regarded as the sum of representative indicators. Specifically, these will be the most commonly used indicators of the financial situation characteristics. However, Baran (2011) argued that dozens of indicators are used, and it is not possible to mention all of them. Practically,

using several basic indicators have proven applicable, which can be characterized into groups according to areas of evaluation by management and the company's financial health. Mostly these are groups of indicators like debt, liquidity, profitability, activity, capital market indicators as well as other indicators (Knapkova & Pavelekova, 2013).

2.2.3.1 Financial Efficiency

The concept of financial efficiency simply means the evaluation and financial performance of a business concern in the appraisal. According to Peter Drucker, doing the things in the right way is referred to as efficiency. Efficiency signifies a level of performance that describes a process that uses the lowest amount of inputs to create the greatest amount of outputs. Efficiency relates to the use of all inputs in producing any given output, including personal time and energy. It is a measurable concept that can be determined by taking into consideration the ratio of useful output to total input.

Financial efficiency also refers to the internal processes of an organization that leads to the production of output. It mainly concentrates on the best means through which a desired objective can be accomplished. It also indicates the achievement of a desired objective with minimum sacrifice of the scarce resources. Moreover, the intensity with which a business uses its assets to generate gross revenue and the effectiveness of production, purchases, prices and marketing decisions are also measured.

2.2.3.2 Financial Appraisal

Financial appraisal is used as a technique for the evaluation of the profitability and financial strength of a business unit. Often the terms, financial performance appraisal and financial statement analysis are used as synonymous. Basically, the techniques of

financial statement analysis are used for the purpose of financial analysis. The financial appraisal provides a technique for the assessment of the financial strengths and weaknesses of the company.

Financial performance appraisal is based upon the balance sheet and the profit and loss account. Each organization maintains its financial statements according to its needs. These financial statements are very useful in depicting the financial health of the organization at any given point in the time. Financial appraisal emulates the profitability and financial soundness of the business entity. In an undeniable manner, financial appraisal represents the performance evaluation of all financial matters regarding the profitability of the firm, its capital structure, the fixed assets utilization, the working capital requirement and liquidity analysis.

2.2.3.3 Financial Analysis

Financial analysis is an analytical way of viewing the financial position of a company. It provides a clear guide to evaluate and recognize the company's position. The different methods to analyze the financial position of a company include ratio analysis, comparative statement analysis, and cash flow analysis and decision theory. Ratio analysis is considered to be one of the best tools to evaluate the working and financial performance of a company over time. It is the easiest available tool for any investor or stakeholder to identify the financial strength of a company. The financial analysis is beneficial for short as well as long-term solvency (Kumari, 2013).

Financial analysis is mainly done to compare the growth, profitability and financial soundness of the industry or the firms by diagnosing the information contained in the

financial statements. It indicates the financial strength and weakness of the firm it establishes the relationship between the financial position statement and income statement (Bansal, 2014). Financial analysis means selection, evaluation and interpretation of financial data, along with other pertinent information, to assist in investment and financial decision-making. One of the most fundamental facts about organizations is that the financial structure is mainly shaped by the operating performance and the same is true for the reverse, where the financial situation determines the performance. It is also true that the financial situation of the firm can also determine its operating performance. Therefore, financial statements are significant analytical tools for the management of the business. Moreover, finance is the base for every business' activities. Hence, it is essential to analyze the financial performance of the company with its financial statements (Agarwal A. , 2013).

The financial analysis of a company is a very significant tool used by the actuaries in the process of decision making on underwriting and investment activities of the concern. It plays a vital role in fostering the economic growth and stability of the economy (Burca & Batrinca, 2014). In short, the process of financial performance is made up of selection, relation and evaluation of the operations of a business within a specified period (Khan & Jain, 2005).

Metcalf & Titard (1976) defined financial analysis as a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance. Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements, and a study of the trend of these factors as

shown in a series of statements (Gupta & Sharma, 2014; Karimi & Masoud, 2008). Financial analysts depend on these statements to diagnose financial performance. It appears that there are three basic principal reasons, which are as follows:

i. The accounting information remains more or less the same over time; therefore, meaningful interpretations can be drawn by examining trends in raw data and financial ratios.
ii. Due to the similar characteristics various firms in the same industry, inter-firm comparisons are valuable.
iii. Experience seems to suggest that financial analysis works if one is aware of the accounting biases and makes adjustments for the same.

Financial analysis may be done for a variety of commitments, which may vary from a simple analysis of the short-term liquidity position of the firm to a comprehensive assessment of the strengths and weaknesses of the firm in various areas. Financial analysis plays a very noteworthy role in evaluating corporate excellence, judging the creditworthiness of firms, valuing equity shares, forecasting bonds ratings, predicting bankruptcy and assessing market risk (Chandra, 2005). There is also a qualitative approach to financial analysis. Focusing on qualitative data such as the quality of a company's employees, for example, its managers, its key executives, as well as its board of directors could give some idea of its standing amongst its competitors. Brand-name recognition, patents and employment of high-tech infrastructure are also key to this qualitative approach to financial analysis. Nevertheless, this kind of analysis is not an accurate measure of financial performance on its own. It ought to be used in conjunction with quantitative measures to be meaningful. The main reasons for financial performance analysis are as follows:

For creditors:

- To find out reasons for a company's need of additional financing;
- To find out how a debtor plans to pay back principal and interest;
- To assess how previous debts were handled;
- To know whether there would be additional requests for financing in the future.

For current and potential shareholders:

- To view the company's present and long-term operations;
- To estimate future revenue potential;
- To find out the current financial situation of the company and the factors that led to it;
- The vulnerability of its revenue to significant variability;
- To determine the firm's capital structure and whether it benefits the company;
- To find out a firm's position with regards to competitors.

2.2.3.4 Financial Statements used in Financial Analysis

The data for the process of financial performance analysis is obtained from a range of sources internally generated by the company. These statements can be prepared periodically, generally annually, but could also be done quarterly or for biannual accounting periods. The most basic and compact financial document available to the public is the annual report. The annual report includes the balance sheet, profit and loss statement, cash-flow statement and statement of changes in equity. Also included are notes on the financial statements for explanations of the figures. The information

displayed in annual reports is usually limited to what is prescribed by law. Any extra information is most often used by only the internal users of financial analysis.

The Balance Sheet: The balance sheet is a simple summarization of a firm's assets, liabilities and shareholders' equity, categorized accordingly, at the end of every accounting period. It is the most basic form of financial statements, therefore, the most important. The accounting equation is the basis of this financial report: *Assets = Liabilities + Shareholders' equity*. The left-hand side of this equation (assets) denotes the economic resources controlled by the company. This includes buildings, machinery, cash, bank accounts, etc. that are owned by the company. Assets could be divided into two parts; fixed and current assets, to give more detail. The right-hand side denotes sources of funding for the assets. It is also divided into two parts. The liabilities relate to claims of creditors on assets of the company. Shareholders' equity is the total of contributed funds to the company from the shareholders and accumulated profits that are not paid out to shareholders (dividends) also known as retained earnings.

The disadvantage with the balance sheet as representation of a company's finances is that it does not reflect in detail the true nature of a company's structure. It also only considers accounting or book values of assets, which might be different from current market value. Apart from that, assets like employees cannot be represented by figures in the balance sheet concerning their work experience and qualifications.

The Income Statement: The Income Statement is also referred to as the Profit and Loss Statement. It simply reflects financial performance of a company between consecutive accounting periods or balance sheets. It shows a list of revenues, expenses,

losses or profits over that period, from operating and non-operating activities. The difference between revenues and costs is the economic result, which is a loss when negative and a profit or gain when positive. The income statement provides more detail on the company's activities by showing how much was spent doing what (expenditure) and revenue accrued from those activities. This is important in helping decide company tax and dividend policy and helps users to know how much an activity contributes to the economic result (Besanko, 2007).

The Cash-Flow Statement: The statement of cash flows shows the sums of money coming in and going out at any point in time of a company's life. This statement is necessary because under accrual accounting, net income does not always equal net cash flow except over the life of a company, therefore, reporting of cash inflows and outflows is necessary to determine how much money is actually passing through the company. An analysis of this statement will tell the user about the viability of the firm in the short-term. This has to do with its ability to meet short-term liabilities like paying bills and short-term debts among others. In addition, there is a breakdown of company activities into operating, financing and investing activities (Emery, Finnerty, & Stowe, 2004).

Statement of Shareholders' Equity: The statement of shareholders' equity shows how a firm acquires its funds in a specific period and how it employs them. It reports changes in the different accounts that make up equity. It is a total of registered capital, capital contributions, reserve funds and retained earnings.

The Annual Report: The annual report is required by law and is prepared every year to inform the public about the current financial situation of the company. It consists of the balance sheet, income statement, cash-flow statement and statement of shareholders' equity, as well as additional information from the managers and other top-ranking officials like the chairperson of the board of directors and a list of major shareholders in the company.

2.2.4 Tools and Techniques of Financial Performance Analysis

Financial statements are a very important source of information for financial performance analysis. Various techniques are used in analyzing the financial performance of firms and these are discussed below.

2.2.4.1 Analysis of Comparative Financial Statements

The comparative financial statements reveal the operating results and financial position of a business concern in a comparative form for a period of two or more years. From comparative statement point of view, generally two financial statements (balance sheet and income statement) are taken for comparative financial analysis purpose. When the financial statements are prepared in a comparative form both absolute and percentage changes help the financial analysts to draw useful conclusions on whether the sales revenue and expenses have increased or decreased in the current year over the previous year. Similarly, comparative statements also show trends and direction about the financial position of an organization (Yameen, 2016).

2.2.2.3 Standards of Comparison

Ratio analysis involves comparison for useful interpretation of the Financial Statements. A single ration in itself cannot indicate favorable or unfavorable condition. It should be compared with some standard for it to be meaningful. Standards of comparison are of four types and these are:

Trend Analysis: When ratios over a period are compared, it is known as the Time Series or Trend Analysis. Trend analysis is an important tool of horizontal financial analysis which is popularly helpful in making a comparative study of financial statements of several years or periods and trend percentages are computed for each component of the financial statement taking the figure of base years as 100 and generally the starting year or period is taken as the base. Under this analysis, ratios of different items of the financial statements for various periods are calculated and the comparison is made accordingly. The analysis over the prior years indicates the trend or direction. Trend analysis is a useful tool to know whether the financial health of a business entity is improving in the course of time or it is deteriorating.

Cross-Sectional Analysis: when ratios of one firm are compared with some selected firms in the same industry at the same point in time, it is referred to as Cross Sectional Analysis.

Industry Analysis: The ratios are compared with average ratios of the industry to which the firm belongs; this sort of analysis is known as the Industry Analysis.

Pro Forma Analysis: The comparison of current or past ratios with future ratios which are developed from the projected or pro forma financial statements is referred to as Pro Forma Analysis.

2.2.4. Limitations of Financial Performance Analysis

It may be right to say that financial statements are relevant and useful for businesses, but they are not free from some limitations. Therefore, the financial performance analysis and the interpretation of these statements should be done in a very careful manner. Otherwise, wrong conclusions may be drawn and this would be very harmful for all the stakeholders. The financial statements suffer from the following limitations:

i. Financial performance analysis is based on interim reports, which do not give a final picture of the concern. Therefore, the exact position of an entity can only be accurately identified at the time of liquidation of the entity.

ii. The analysis process does not give an exact position in terms of the value of fixed assets in the balance sheet; neither does it represent the value that the fixed assets can be sold at.

iii. Financial statements are prepared based on historical costs. Therefore, the value of depreciation of assets is not taken into account with the current time period prices, which may be very misleading.

iv. There are many non-monetary factors that influence the financial position and operating results of the company that need to be considered when analyzing the financial performance of an entity.

2.2.5 Economic Growth

According to Kindleberger & Aliber (2011), economic growth means, more output and changes in the technical and institutional arrangements by which it is produced and distributed. Friedman (2005) defines growth as an expansion of the system in one or more dimensions without a change in the structure and development as an innovative process leading to the structural transformation of social systems. Thus,

economic growth is related to a quantitative sustained increase in the country's per-capita output or income accompanied by expansion in its labor force, consumption, capital and volume of trade.

The growth in the economy is conventionally measured as the percentage increment in real gross domestic product (GDP). The GDP is the entire value of a nation's output (Quar, 2001). GDP is measured either by the expenditure approach or the income approach. The real GDP (inflation adjusted) provides a more reliable measure of economic growth as it takes into account the inflation factor which might exaggerate the extent of economic growth (Nyamakanga, 2013). One of the most comprehensive researches was done by King & Levine (1993) when they found a positive relationship between financial performance and economic growth. Other important works by Greenwood & Jovanovic (1990); Berthelemy & Varoudakis (1996); Rousseau & Watchtel (1998); Levine, Loayza, & Beck (2000) found positive and significant relationship between financial performance and economic growth, while (Caderon & Liu (2003) found that growth influences financial development. After some time, researchers started investigating separate effects of the financial performance and its effects on economic growth. It was possible only when capital markets were developed enough and when the quality of data allowed such an analysis.

One of the first works in the influence of the capital market on growth was done by Atje & Jovanovic (1989) where they found a positive relationship between the financial performance of listed companies and economic growth. (Levine, 1991) and Bencivenga, Smith, & Starr (1996) showed that stock markets can influence growth through liquidity increase, and similar work by Obstfeld (1994) showed that risk

diversification over globally integrated stock markets is an additional channel through which stock markets can stimulate economic growth. Similarly, a positive relationship was found by Atje & Jovanovic (1993); Singh (1997) and Levine & Zevros (1998) between the financial performance of listed companies and economic growth.

2.3 Relevance of the Conceptual Framework to the Study

Financial goals drive higher profits; higher profits in turn contribute to growth in GDP. The concept of financial performance emphasizes the importance of profitability as a basis for survival. It is vital for entities to track their financial performance in order to ensure that they survive within the industries they operate in. One of the major techniques used to measure financial performance is ratio analysis. Ratios give a snapshot of the results of operations of an entity in a given period. The concept of financial performance is therefore relevant to this study, which seeks to analyze the financial performance of Zimbabwean listed companies. Notwithstanding the shortcomings of the financial performance concept mentioned, financial analysis using ratios remains the basic measure of a firm's performance.

Moreover, the financial performance of a firm is associated with its ability to generate profit, increase the value of invested capital and at the same time repay its short- and long-term liabilities. Assessment of financial performance is primarily based on various methods of financial analysis. The choice of methods is mainly influenced by the purpose of use, time criteria and character of information resources. The aim is to achieve the desired level of complexity in evaluating the firm's financial performance and its activities. In the practice of financial analysis, financial ratios are mainly used for their simplicity and additional information value. These ratios make it possible to

analyze the evolution of the financial situation of a firm (trend analysis), cross-sectional analysis and comparative analysis.

Financial ratios can be categorized into the indicators of productivity, profitability, cost, liquidity, solvency, capital structure, and capital market indicators. Financial ratios are the most popular and most widely used methods of financial analysis also because they can be used as input data of more complex mathematical models. To assess the results and to predict future financial development of a firm it is necessary to connect data from financial performance analysis and other information that the firm itself presents mainly in its annual report. This is mainly a verbal analysis of the causes that led to the attainment of positive or negative financial results. Annual reports also present company's managerial priorities. Assuming that firm management monitors all aspects of financial health through financial analysis, a set of indicators cannot only be chosen to evaluate financial performance, but it should also be monitored and assessed whether the results achieved are commented and explained in the textual sections of annual reports.

2.4 Summary

The analysis of financial performance of companies listed on the ZSE was addressed using strategies and financial measures that drive growth and the achievement of organizational objectives. To understand how companies in Zimbabwe perform, it is necessary to examine their performance using the various measures of financial performance. The researcher reviewed literature related to the concept of financial performance and the various techniques used to measure financial performance. The drawbacks of the techniques of financial performance measurement were also

discussed in this chapter. The economic growth concept was also highlighted in relation to studies carried out by previous researchers. The discussion about the concept of financial performance analysis clearly indicates that the analysis of financial performance is very dependent on the financial statements of the companies. The chapter also highlighted the concept and calculation of the various ratios used to analyze financial performance.

CHAPTER 3 METHODOLOGY

3.1 Introduction

The aim of this research is to analyze the financial performance of companies listed on the Zimbabwe stock exchange. To achieve this goal, there is great need to use the appropriate methods. This chapter covers the methodology that was applied to carry out the study, wherein the researcher describes the research philosophy, approach, sampling techniques, data collection and data analysis. The research methodology looks at the different ways, which the researcher adopted in investigating the different situations in the study.

3.2 The Research Design

The study employed a mixed method research design. Both quantitative and qualitative data gathering techniques to formulate a holistic interpretive framework for generating possible solutions was employed. Data was collected from questionnaires and semi-structured interviews from the research participants. Data collected was analyzed using SPSS, tables and graphs to establish the existence of any relationships between the variables. The survey method was adopted as it has much strength in collecting primary data, which allows the researcher to generalize the research findings and results to the companies listed on the Zimbabwe Stock Exchange's financial performance.

3.3 Population and Sampling

The study population consisted of all the Zimbabwean Chartered Financial Analysts (66) all the registered Stock brokers in Zimbabwe (37). These were the numbers as at 31 December 2018, giving a total study population of 103 respondents. The total

number of good standing CFA in Zimbabwe as at 31 December 2018 was 66 (CFA, 2018).The number of registered stockbrokers in Zimbabwe as at 31 December 2018 was 37 (SECZ, 2018). Non-probalistic sampling was used. A sample size of sixty participants was drawn from the population using a survey sample size calculator at 90% confidence level and 7% margin of error. Convenience sampling was then used to distribute questionnaires and in conducting interviews. Non-probabilistic sampling design was used as it is more flexible, less costly and less time consuming as compared to its probabilistic sampling design counterpart.

3.4 Data Collection Instruments

The researcher used self-administered questionnaires and an interview guide to collect data. This was done to reduce the issues of subjectivity and research biases that are common in other data collection instruments, they are easy to administer and are time saving. The study's questionnaire covered the analysis of financial performance of the selected organisations, the relationship between financial performance of listed companies and economic growth, the major factors that affect the financial performance of companies listed on the ZSE and recommendations on how listed companies can perform best to contribute to the overall economic growth**.**

The questions were drafted to gather information about the financial performance of listed companies and to establish if the stock exchange market is achieving what it is supposed to achieve and to assess if it is making a difference and the lessons learnt by management and policy makers. The interview guide was used to assist the researcher to direct the conversation towards the issues of financial performance that the researcher wanted to know about. It also guided the researcher on the sequence of

questions and posing follow up questions in line with the research objectives. The researcher also used secondary data i.e.; published financial statements of the selected firms, textbooks and stock market data that was obtained from the ZSE and Zimstats websites among others.

3.5 Data Collection Procedure

The researcher pre notified the target sample in advance. A letter of introduction was sent to enable the respondents to decide in advance whether they were willing to participate in the research or not. However, the advance letter had a negative impact because some of the respondents then prepared to refuse to participate in the survey after receiving the request. After the questionnaires were sent to the respondents who had agreed, follow-ups were done in order to improve the response rate. Respondents were reminded by telephone calls and emails. Studies have shown that reminders to a survey can double the response rate that otherwise would have been obtained through single mailing (Richardson, 2000). The researcher was always ready to clarify issues that respondents needed clarity on during the course of data collection. This helped in improving the response rate. Questionnaires were sent online to half of the respondents and the other half were sent as hard copies. The researcher also communicated proposed interview dates with the prospective respondents; these were then adjusted to suit the respondents' diaries. After setting the interview dates, the researcher then met with the respondents, collecting the completed questionnaires and seeking clarity on further questions that needed clarification on a one on one basis. All questionnaires were fully completed.

3.6 Analysis and Organization of Data

The data was collected from the questionnaires and the semi-structured interviews, and stored waiting for analysis. The study involved both qualitative and quantitative methods. In explaining qualitative findings, content analysis was employed. The analysis of the quantitative data collected was done using descriptive and inferential statistics utilizing the SPSS. The role of stock exchange market in economic growth was measured in terms of the relationship between the financial performance of listed companies (as measured by ROA and ROE) and year on year GDP growth figures. Tables and graphs were also used to display findings. Analysis of data was done using SPSS, each question used in the questionnaire and interview was structured in such a way that it provided the underlying information, thereby answering a particular research item to meet a defined objective. The sources of the data for quantitative analysis was obtained from various issues of the Zimstats, the Central Bank of Zimbabwe (RBZ),IMF statistics, world bank reports and published financial statements of the selected firms between 2013 and 2017.

3.7 Ethical Consideration

The researcher liaised with the targeted respondents, first spelling out the intentions of the research. Once permission was granted, individual members targeted for questionnaire response were also contacted in writing before receiving the questionnaire. Appointments with members targeted for interviewing were booked in advance to avoid inconveniences. Responses obtained from participants were used for academic purposes only. Confidentiality was one of the main considerations that the researcher observed as part of the ethical considerations. Questionnaires were filled based on anonymity without any form of identity information. This was important as

it helped the participants to freely respond to the questionnaire, which was essential for acquiring all important information. The research was also approved by the Africa University Research Ethics Committee (AUREC). All respondents were free to partake in the study or decline if they felt uncomfortable in participating.

3.8 Summary

The discussion above has focused on research methodology applied for this study. A detailed discussion on the justification for choosing the case study strategy and the questionnaire combined with interviews as the data collection tools of choice. Mixed research techniques were employed for the research. The research design adopted enabled the study to get both quantitative and qualitative information. Both exploratory and explanatory studies were conducted. The results obtained from the data analyzed enabled the researcher to come up with the findings detailed in the next chapter. Results from the research are expected to spell out the financial performance analysis techniques of the listed companies in Zimbabwe. Findings are also expected to generate useful information on the role of the Stock Exchange Market to economic growth of the Zimbabwean economy and ultimately come up with feasible recommendations on improving the role of the stock exchange market in Zimbabwe.

CHAPTER 4 DATA PRESENTATION, ANALYSIS AND INTEREPRENTATION

4.1 Introduction

This chapter presents and analyses the empirical findings of the study regarding the financial performance of listed companies in Zimbabwe and their role in economic growth. The factors affecting the financial performance of listed companies on the ZSE are also analyzed. The findings are analyzed in relation to research objectives and propositions of the study and literature review. The research methods used were of a quantitative and qualitative nature.

4.2 Data Presentation and Analysis

4.2.1 The Financial Performance of Companies Listed on the ZSE

Table 4. 1: Summary of Financial Measures (2013 to 2017).

	ROA (%)			ROE			GDP GROWTH
YEAR	CAFCA .zw	MSHL.zw	GBH.zw	CAFCA .zw	MSHL.zw	GBH.zw	
2013	4%	3%	4%	14%	2%	10%	2%
2014	6%	4%	5%	15%	1%	12%	2%
2015	4%	2%	3%	13%	1%	6%	2%
2016	0%	0%	0%	0%	0%	0%	0%
2017	4%	2%	1%	5%	5%	2%	4%

Source: (Field Data 2019)

All the three companies recorded positive returns over the five-year period. However, in 2016 all of them had zero profits resulting in 0% ROA and ROE.

Table 4. 2: Financial Measures: CAFCA

CAFCA

	N	Minimum	Maximum	Mean	Std. Deviation
Gross Domestic Product Growth (%)	5	.00	4.00	2.0000	1.41421
Return On Equity (%) CAFCA	5	.00	15.00	9.4000	6.58027
Return On Assets- CAFCA (%)	5	.00	6.00	3.6000	2.19089
Valid N (list wise)	5				

Source: (Field Data 2019)

The minimum values for the three variables were 0%. The maximum for GDP growth was 4% with a standard deviation of 1.4. The maximum for ROE was 9.4% with a standard deviation of 6.6 and that for ROA was 3.6% with a standard deviation of 2.2.

Table 4. 3 Financial Measures: General Beltings

General Beltings

	N	Minimum	Maximum	Mean	Std. Deviation
Gross Domestic Product Growth (%)	5	.00	4.00	2.0000	1.41421
Return On Equity GBH (%)	5	.00	12.00	6.0000	5.09902
Return On Assets- GBH (%)	5	.00	5.00	2.6000	2.07364
Valid N (list wise)	5				

Source: (Field Data 2019)

The minimum values for the three variables were 0%. The maximum for ROE was 12% with a standard deviation of 5.1 and that for ROA was 5% with a standard deviation of 2.1.

Table 4. 4: Financial Measures: Masimba Holdings

Masimba Holdings

	N	Minimum	Maximum	Mean	Std. Deviation
Gross Domestic Product Growth (%)	5	.00	4.00	2.0000	1.41421
Return On Equity MSHL (%)	5	.00	4.00	2.2000	1.48324
Return On Assets- MSHL (%)	5	.00	4.00	2.2000	1.48324
Valid N (list wise)	5				

Source: (Field Data 2019)

The minimum values for the three variables were 0% and the maximum values for the three variables was 4%with standard deviations of 1.4.

4.2.1.1 ROA

ROA measures how efficiently a company can squeeze profit from its assets, regardless of size. A high ROA is a sign of strong financial performance. ROA gives a quick indication of whether a business is continuing to earn an increasing profit on each dollar of investment.

CAFCA recorded 4% ROA in 2013, 6% in 2014, 4% in 2015, 0% in 2016 and 4% in 2017. This implies that the total assets invested in CAFCA yielded a return of $0.04 in 2013, 2015 and 2017, a $0.06 return in 2014 and no return in 2016. Masimba Holdings recorded a highest ROA of 4% in 2014 and a lowest of 0% in 2016. In 2013 Masimba Holdings recorded a 3% return, in 2015 2% and in 2017 2% ROA. This implies that the total assets invested in Masimba Holdings yielded returns of $0.03 in 2013, $0.04 in 2014, $0.02 in 2015 and 2017 and no return in 2016. General Beltings

had a highest ROA of 5% in 2014 and a lowest of 0% in 2016. General Beltings recorded a 4% return in 2015, 3% and in 2015 and 1% ROA in 2017. This implies that the total assets invested in General Beltings yielded returns of $0.04 in 2013, $0.05 in 2014, $0.03 in 2015, no return in 2016 and $0.01 in 2017. The returns were on a downward trend over the period under consideration. Masimba Holdings recorded the lowest ROA during the whole period.

4.2.1.2 ROE

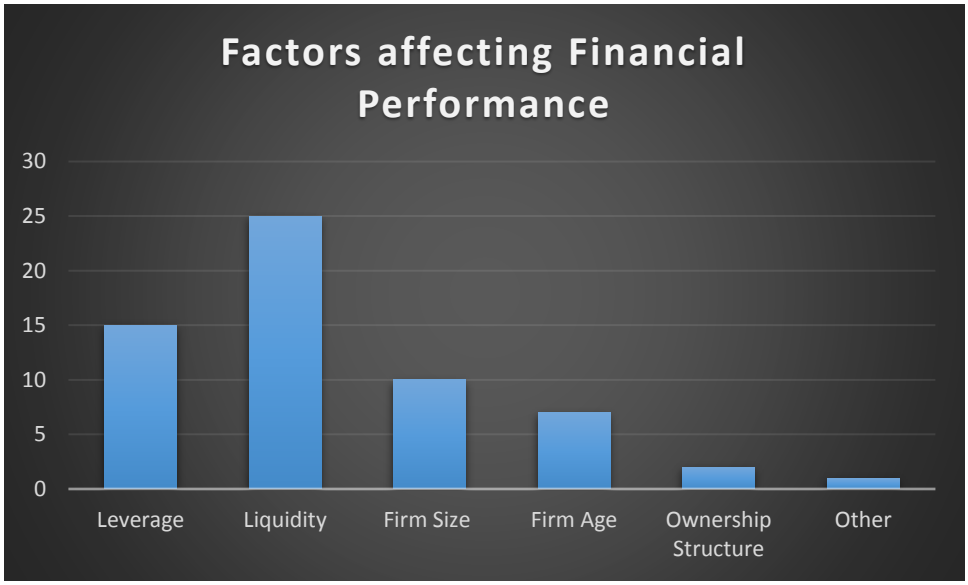
ROE measures how effectively management is using a company's assets to create profits. ROE is a two-part ratio in its derivation because it brings together the income statement and the balance sheet, where net income or profit is compared to the shareholders' equity. The number represents the total return on equity capital and shows the firm's ability to turn assets into profits. To put it another way, it measures the profits made for each dollar from shareholders' equity.

CAFCA recorded the highest ROE over the whole period as compared to General Beltings and Masimba Holdings. CAFCA recorded 14% ROE in 2013, 15% in 2014, 13%in 2015, 0% in 2016 and 5% in 2017. This implies that for every dollar invested by shareholders in CAFCA, they got a return of $0.14 in 2013, $015 in 2014, $0.13 in 2015, $0 in 2016 and $005 in 2017.Masimba holdings recorded the lowest returns over the period under study with a 2% return in 2013, 1% in 2014 and 2015, 0% in 2016 and a high of 5% in 2017.This implies that for Masimba Holdings, every dollar that was invested by shareholders yielded returns of $0.02 in 2013, $0.01 in 2014 and 2015, no return in 2016 and $0.05 in 2017. General Beltings followed CAFCA closely with 10% return in 2013, 12% in 2014, 6% in 2015, 0% in 2016 and 2% in 2017. This

implies that for every dollar that was invested by shareholders in General Beltings, returns of $0.10 in 2013, $0.12 in 2014, $0.06 in 2015,no returns in 2016 and $0.02 in 2017.Shareholders in the three companies did not get any return from their investment in 2016.

4.2.2 Factors Affecting the Financial performance of listed companies in Zimbabwe.

Figure 4. 1: Summary of factors affecting financial performance of listed companies.



Source: (Field Data 2019)

The respondents were asked to comment on the major factors that they considered to affect the financial performance of listed companies in Zimbabwe. A number of factors were identified. 15 of the respondents (25%) respondents identified leverage as the main factor that affects the financial performance of listed companies. 25 respondents mentioned liquidity, 10 pointed at firm size, 7 to firm age, 2 to the ownership structure and one respondent out pointed that not one single factor can be singled out as a major factor affecting financial performance but rather many factors come into play. The

following section gives some detailed responses from the stockbrokers and financial analysts interviewed.

4.2.2.1 Firm Age

If performance declines as firms grow older, it could explain why most of them are eventually taken over (Loderer, Neusser, & Waelchli, 2009).Age could actually help firms become more efficient. However, old age may also make knowledge, abilities, and skills obsolete and induce organizational decay (Agarwal & Gort, 2002). (Sorensen & Stuart, 2000) argued that companies age affect the firm's performance due to inability to swiftly respond to environmental and technology advancements. (Loderer, Neusser, & Waelchli, 2009) found a positive and significant relationship between the age of a company and its financial performance. The table below shows the ages of the three selected companies as at 2017 and the yearly averages.

Table 4. 5: Firm Age (2013 to 2017)

Firm	Founded	Age(Yrs)2017
CAFCA.zw	1947	70
MSHL.zw	1974	43
GBH.zw	1968	49
Year	**Average Age(Yrs)**	**Average Fin Perf**
2013	**50**	**14%**
2014	**51**	**16%**
2015	**52**	**11%**
2016	**53**	**0%**
2017	**54**	**8%**

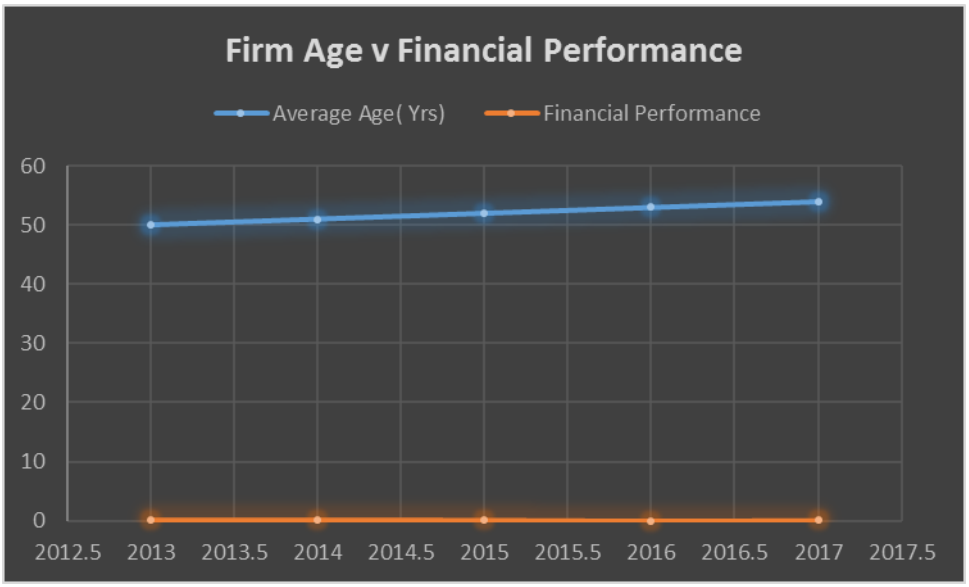
Source: (Field Data 2019)

As at 2017, Cafca was 70yrs and was the oldest amongst the selected companies, followed by General Beltings (49years) and lastly Masimba Holdings at 43years. The average annual returns fluctuated from 14% in 2013 to 0% in 2016 and 8% in 2017. Regardless of the increasing ages of the firms, financial returns fluctuated over the

period. This indicates that it is possible that there are other factors that may affect the financial performance of listed firms in Zimbabwe other than the age of the firm.

The graph below shows the relationship between average firm age and the financial performance of listed companies.

Figure 4. 2: Firm Average Age v Financial Performance (2013 to 2017)



Source: (Field Data 2019)

The relationship between firm age and financial performance of listed companies in Zimbabwe is not very clear-cut from the results obtained.

Table 4. 6 : Correlations: Average Firm Age v Average Financial performance

		Average Firm Age (Yrs.)	Average Financial Performance (%)
Average Firm Age (Yrs.)	Pearson Correlation	1	1.000**
	Sig. (2-tailed)		.000
	Sum of Squares and Cross-products	156.800	156.800
	Covariance	39.200	39.200
	N	5	5
Average Financial Performance (%)	Pearson Correlation	1.000**	1
	Sig. (2-tailed)	.000	
	Sum of Squares and Cross-products	156.800	156.800
	Covariance	39.200	39.200
	N	5	5

**. Correlation is significant at the 0.01 level (2-tailed).

Source: (Field Data 2019)

The Pearson correlations co-efficient between average firm age and financial performance is 1, implying that firm age and financial performance have a perfect statistical relationship. This means that the two variables move in the same direction. This implies that as the firm advances in age, its financial performance also improves.

Seven of the respondents explained that the age of a firm affects the financial performance of the firm as with age comes efficiency. One of the respondents gave the explanation that older firms usually tend to be more experienced mainly because they have enjoyed the benefits of learning and are not heavily exposed to the liabilities

of being new in the industry, therefore they tend to have a superior financial performance. Two other respondents however explained further that this is not always the case but rather it depends on the nature of leadership at the organization. Thus, this only becomes a factor if there is a conducive environment to take the age of the firm as an opportunity to improve the financial performance of the firm. The respondent also buttressed his point on leadership by explaining that the nature of leadership at the organization may also make firm's age a weakness. Skills tend to become obsolete in older firms and resistance to change may trickle in thereby reducing the financial performance of the firms. The respondents also mentioned that organizational inertia in old firms also tend to make them unresponsive to changes in the economic and social environment. However, one of the respondents emphasized that the firm's age is a critical factor affecting the financial performance of the firm.

4.2.2.2 Ownership Structure

Only two out of the sixty respondents identified ownership structure as a major factor affecting the performance of the firm. One respondent mentioned that the number of shareholders in a company determines the financial performance of the firm. This may be because of the ease of control of the operations of the firm when ownership is in the hands of few ordinary shareholders, as compared to when the ownership is in the hands of many shareholders. The respondents explained that the use of preferred stock or debt in order to maintain control by few ordinary shareholders makes control of the firm easier. They mentioned that it is like that because debt or preferred stock holders do not have voting or management rights. Furthermore, the trading competencies of stocks in the market are improved by the non-dilution of ownership hence this therefore improves the financial performance of the company.

4.2.2.3 Leverage

Table 4. 7: Leverage (2013 to 2017)

LEVERAGE (Debt/Equity)					
Firm	CAFCA.zw	MSHL.zw	GBH.zw	Average Leverage	Average Fin Perf
Year					
2013	0%	14%	8%	16%	14%
2014	-	2%	3%	3%	16%
2015	-	2%	3%	3%	11%
2016	-	3%	1%	3%	0%
2017	-	6%	1%	3%	8%

Source: (Field Data 2019)

The findings indicated that listed firms had an annual average leverage of 16% in 2013, which implies that on average 16% debt was used in financing the total assets. In 2014, the average leverage dropped sharply to 3%, which implies that on average 3% debt, was used in financing the total assets in 2014. The average leverage remained constant at 3% between 2014 to 2017. From the findings, there is an inverse relationship between annual average leverage and financial performance. As annual average leverage decreased between 2013 and 2014 (from 16% to 3%), financial performance increased from 14% to 16%. When average annual leverage increased by 0.3% between 2015 and 2016, financial performance dropped drastically to zero.

Table 4. 8: Correlations: Leverage v Financial Performance

		Average Leverage	Average Financial Performance (%)
Average Leverage	Pearson Correlation	1	.375
	Sig. (2-tailed)		.534
	Sum of Squares and Cross-products	135.200	54.600
	Covariance	33.800	13.650
	N	5	5
Average Financial Performance (%)	Pearson Correlation	.375	1
	Sig. (2-tailed)	.534	
	Sum of Squares and Cross-products	54.600	156.800
	Covariance	13.650	39.200
	N	5	5

Source: (Field Data 2019)

From the Pearson correlations table above, the correlation of Firm Leverage and financial performance is 0.375, implying that leverage and financial performance have a significant statistical relationship.

The 15 respondents that mentioned leverage as a major factor affecting the financial performance of listed companies also explained that although there may be other factors that influence the financial performance of Zimbabwean listed companies, leverage contributes significantly. There is need for an optimum level of debt within the listed firms for them to perform at optimum levels. The respondents also explained that firms with high debt to equity ratios tend to be more exposed to bankruptcy. This

is so because in case of default, debt holders are the first to liquidate the firm and recover their dues. Thus, they explained that this is a factor critical in determining the financial performance of the firm. More over debt can only be desirable to a certain extent after which it then becomes undesirable. Respondents emphasized that it is very crucial for listed firms to know that point when they should stop employing more debt in raising capital for them to remain financially viable.

4.2.2.4 Liquidity

The International Financial Reporting Standards (2006) define liquidity as the available cash for the near future, after taking into account the financial obligations corresponding to that period. (Liargovas & Skandalis, 2008) argued that a firm can use liquid assets to finance its activities and investments when external finance are not available. On the other hand, higher liquidity can allow a firm to deal with unexpected contingencies and to cope with its obligations during periods of low earnings. (Liargovas & Skandalis, 2008) also found that firm liquidity had significant effect on Financial Performance of listed companies. The results suggested that the listed companies should increase the current assets and decrease current liabilities because of the positive relationship between the liquidity and financial performance. In contrast to the above reasoning, based on a theoretical model by (Jovanovic, 1982) suggested that a moderate amount of liquidity may propel entrepreneurial performance, but that an abundance of liquidity may do more harm than good. Therefore, they concluded that the effect of liquidity on firms' financial performance is ambiguous.

Table 4. 9: Liquidity (2013 to 2017)

LIQUIDITY (Current Assets/Current Liabilities)					
Firm	CAFCA.zw	MSHL.zw	GBH.zw	AVERAGE	Average Fin Perf
Year					
2013	3.52	1.49	1.05	5.36	14%
2014	5.84	1.58	1.10	7.79	16%
2015	4.37	1.24	1.30	6.05	11%
2016	0.01	-	0.01	0.01	0%
2017	3.20	1.11	1.10	4.68	8%

Source: (Field Data 2019)

The findings show that the average annual liquidity of the listed companies was 5.36 in 2013 as a proportion of total current assets to total current liabilities implying that for every dollar of current liability, there was 5.36 dollars of current assets to settle it as and when it falls due. In 2014, the average liquidity of the listed firms increased to 7.79 as a proportion of total current assets to total current liabilities implying that for every dollar of current liability, there was 7.79 dollars of current assets to settle it as and when they fall due. In 2015, the average liquidity of the listed firms dropped to 6.05 as a proportion of total current assets to total current liabilities implying that for every dollar of current liability, there was 6.05 dollars of current assets to settle it as and when they fall due. In 2016 and 2017, the average liquidity of the listed firms increased to 13.92 and 10.26 respectively.

Table 4. 10: Annual Liquidity and Financial Performance Descriptive.

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Performance (%)	5	.00	16.00	9.8000	6.26099
Average Annual Liquidity (%)	5	.01	7.79	4.7780	2.90570
Valid N (list wise)	5				

Source: (Field Data 2019)

The minimum average liquidity recorded was 0.01, the maximum being 7.79. The minimum average financial performance was 0% in 2016 and a maximum of 16% in 2014. The standard deviation for Average annual liquidity was 2.9 over the period whilst that for Average financial performance was 6.3 over the period.

Table 4. 11: Correlation: Liquidity v Financial Performance

		Financial Performance (%)	*Average Annual Liquidity (%)*
Financial Performance (%)	*Pearson Correlation*	*1*	*.956**
	Sig. (2-tailed)		*.011*
	N	*5*	*5*
Average Annual Liquidity (%)	*Pearson Correlation*	*.956**	*1*
	Sig. (2-tailed)	*.011*	
	N	*5*	*5*

**. Correlation is significant at the 0.05 level (2-tailed).*

Source: (Field Data 2019)

From the Pearson correlations table above, the correlation of annual liquidity and financial performance is 0.956 at 95% significance level, implying that liquidity and financial performance have a significant positive statistical relationship. This means that an improvement in liquidity results in improved financial performance for listed companies in Zimbabwe.

Forty two percent of the respondents cited that liquidity is very important because companies with low profitability or even without profitability can serve the economy more than companies without liquidity can. They mentioned the significance of the availability of sufficient liquid resources to enable the firm to meet its current and short-term commitments when they become due for payment could not be overstressed. In fact, liquidity is a pre-requisite for the very survival of a firm. Respondents also highlighted that the short-term creditors of the firm are interested in the short-term solvency or liquidity of a firm. However, liquidity implies, from the viewpoint of utilization of funds of the firm that funds are idle or they earn very little. It was recommended that a proper balance between the two contemporary requirements i.e. liquidity and profitability is required for efficient financial management. The liquidity ratio measures the ability of a firm to meet its short-term obligations and reflect the short-term financial strength/solvency of a firm.

On the other hand, two chartered financial analysts pointed out that liquidity affects the financial performance of listed companies in different ways depending on the nature of business of each individual entity. They pointed out that companies that have pre-defined obligations with clearly laid out payment patterns usually perform just fine

without keeping loads of liquid resources. On the other hand, entities with lots of ad-hoc payments need to have liquid resources at hand to avoid business disruptions.

4.2.2.5 Firm Size

Previous studies in finance have shown that company size can predict the future stock price (Simerly & Li, 2000). Some studies have concluded that larger firms have better performance. Flamini, McDonald, & Schumacher (2009) suggested that bigger firms are more competitive than smaller firms in harnessing economies of scale in transactions and enjoy a higher level of profits. Athanasoglou, Brissimis, & Delis (2005) asserted that an increase in company size increases the performance of the firm. Almajali, Alamro, & Al-Soub (2012) also argued that the size of the firm can affect its financial performance. However, for firms that become exceptionally large, the effect of size could be negative due to bureaucratic and other reasons (Yuqi, 2007). Malik H. (2011) in his Pakistan, study found that there is significantly positive relationship between company size and financial performance.

Table 4. 12: Firm Size (2013-2017)

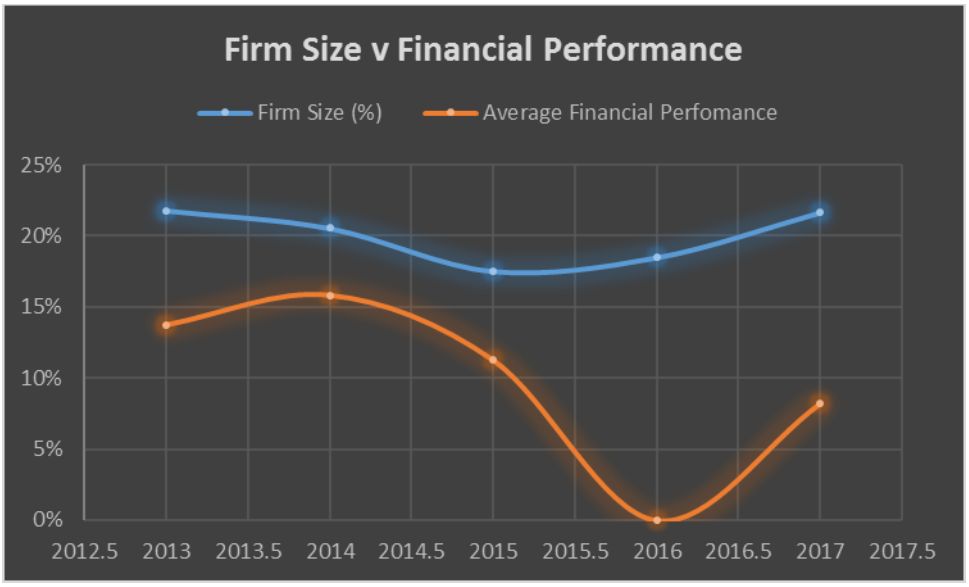
FIRM SIZE (TOTAL ASSETS in MILLION US$)					
Firm	CAFCA.zw	MSHL.zw	GBH.zw	TOTAL	Firm Size (%)	Average Fin Perf
Year						
2013	$ 14.03	$ 37.45	$ 12.66	$ 64.13	22%	14%
2014	$ 14.92	$ 33.97	$ 11.57	$ 60.45	21%	16%
2015	$ 18.35	$ 21.04	$ 12.11	$ 51.50	18%	11%
2016	$ 16.46	$ 24.44	$ 13.46	$ 54.36	18%	0%
2017	$ 18.12	$ 33.16	$ 12.45	$ 63.72	22%	8%

Source: (Field Data 2019)

Firm size was determined as the total assets of a firm in each year. The findings show that 2013 had the highest value of the average total assets (21.8%) followed by 2017 that had (21.6%). 2015 had the lowest asset percentage value at 17.5%. In 2014, the

firm size was 20.5% while in 2016 the firm size was 18.4%. The findings are summarized in the figure below.

Figure 4. 3: Average Firm Size v Financial Performance



Firm size and financial performance had a positive relationship between 2013 and 2015. In 2016, whilst the firm size increased by 1%, financial performance decreased sharply by 11%. Moreover, between 2016 and 2017, the financial performance started to increase in tandem with the increasing firm size. This therefore indicates that generally larger firms tend to perform better than their smaller counterparts.

Table 4. 13: Correlations: Firm size v Financial Performance

		Average Firm Size	Average Financial Performance (%)
Average Firm Size	Pearson Correlation	1	.549
	Sig. (2-tailed)		.337
	Sum of Squares and Cross-products	16.800	28.200
	Covariance	4.200	7.050
	N	5	5
Average Financial Performance (%)	Pearson Correlation	.549	1
	Sig. (2-tailed)	.337	
	Sum of Squares and Cross-products	28.200	156.800
	Covariance	7.050	39.200
	N	5	5

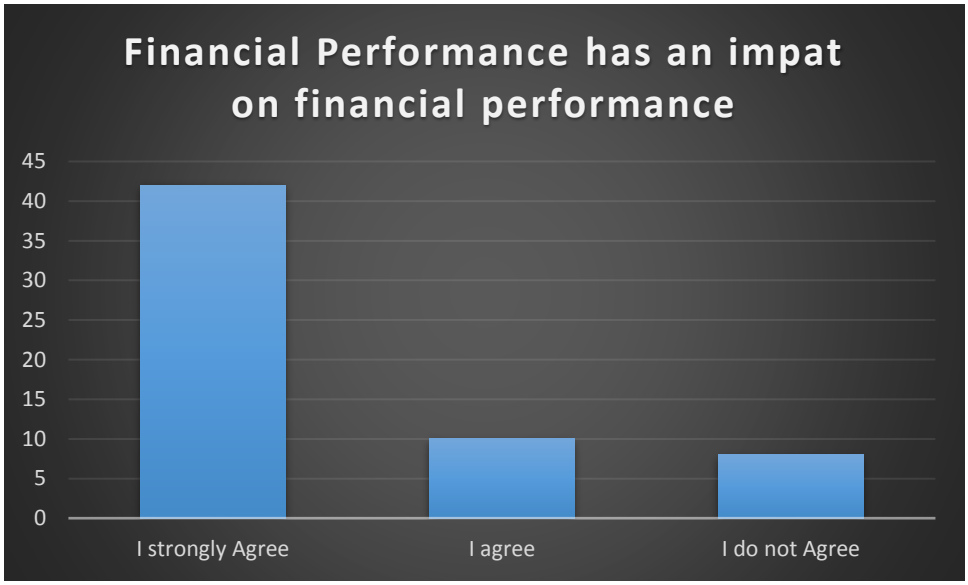
Source: (Field Data 2019)

From the Pearson correlations table above, the correlation of average firm size and financial performance is 0.549, implying that firm size and financial performance have a significant statistical relationship. As the firm size increases, its financial performance also improves.

Ten respondents highlighted that small firms tend to encounter relatively high risks hence it becomes an impediment when they want to raise funds through debt issue hence they become restricted to use retained earnings, equity and debt to finance their operations.

4.2.3 The Relationship between the financial performance of companies listed on the ZSE and Economic growth

Figure 4. 4: Financial Performance of listed companies and economic growth

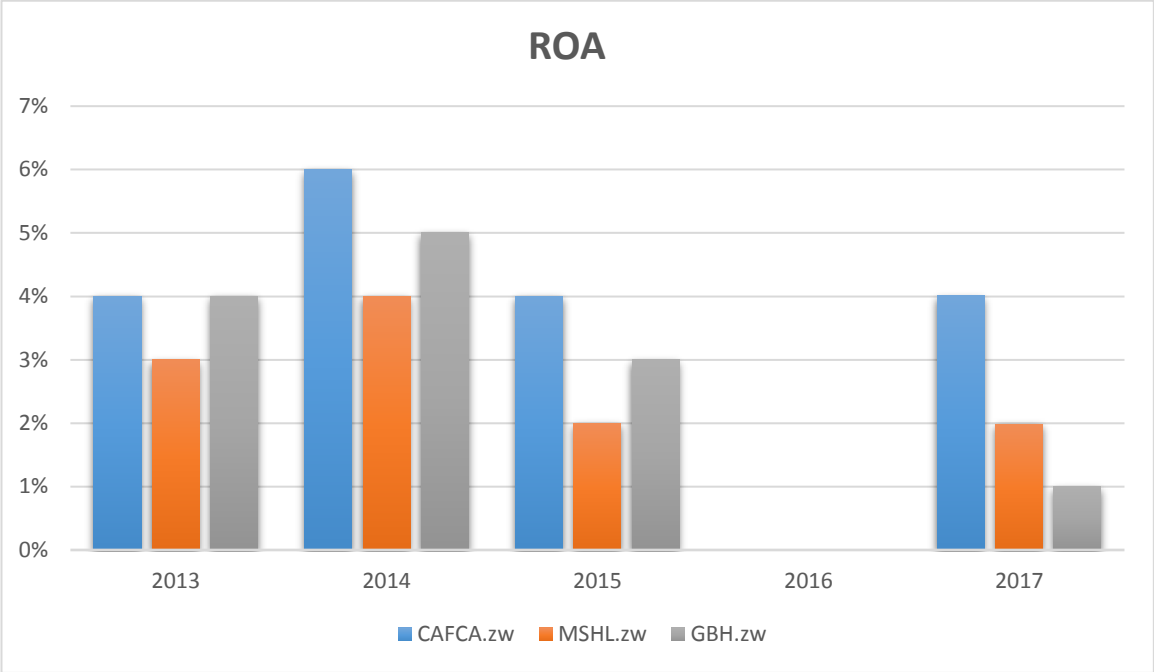


Source: (Field Data 2019)

Seventy percent of the respondents strongly agreed to the proposition that the financial performance of listed companies has an impact on economic growth, 17% agreed and 13% did not agree.

Zimbabwe's annual GDP growth was 2% between 2013 and 2015.It however decelerated to zero in 2016 and rose slightly to 4% in 2017. This implies that the Zimbabwean economy grew by only 2% between 2013 and 2015; GDP growth remained constant in 2016 and grew by 4% in 2017.The bar graph below show the trend analysis for ROA for the three companies under consideration.

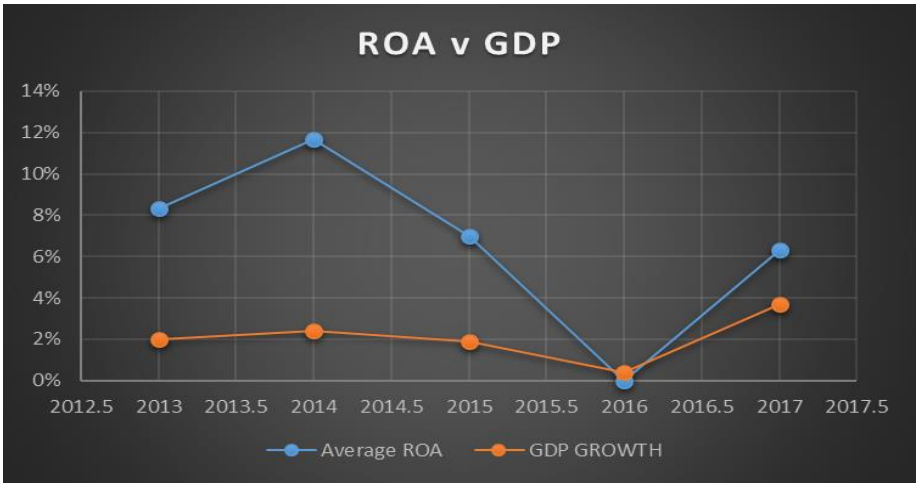
Figure 4. 5: ROA Trend Analysis (2013 to 2017).



Source: (Financial Statements of three companies)

The graph below exhibits the relationship between average annual ROA and GDP growth between 2013 and 2017.

Figure 4. 6: Average ROA v GDP growth (2013 to 2017)



Source: (Financial Statements of the three companies)

The line graph above shows that there is a positive relationship between ROA and GDP growth. Between 2013 and 2014, ROA increased by 4%, consequently GDP grew by 0.4%. Between 2015 and 2016, ROA slumped by 7% and GDP fell by 2%.

When the average ROA rose by 6% from 0% in 2016 to 6% in 2017, GDP growth also rose by 4% from 0% in 2016 to 4% in 2017.

Table 4. 14: Correlation (ROA and GDP Growth)

		Return On Assets (%)	GDP Growth (%)
Return On Assets (%)	Pearson Correlation	1	.972**
	Sig. (2-tailed)		.005
	Sum of Squares and Cross-products	75.200	105.600
	Covariance	18.800	26.400
	N	5	5
GDP Growth (%)	Pearson Correlation	.972**	1
	Sig. (2-tailed)	.005	
	Sum of Squares and Cross-products	105.600	156.800
	Covariance	26.400	39.200
	N	5	5

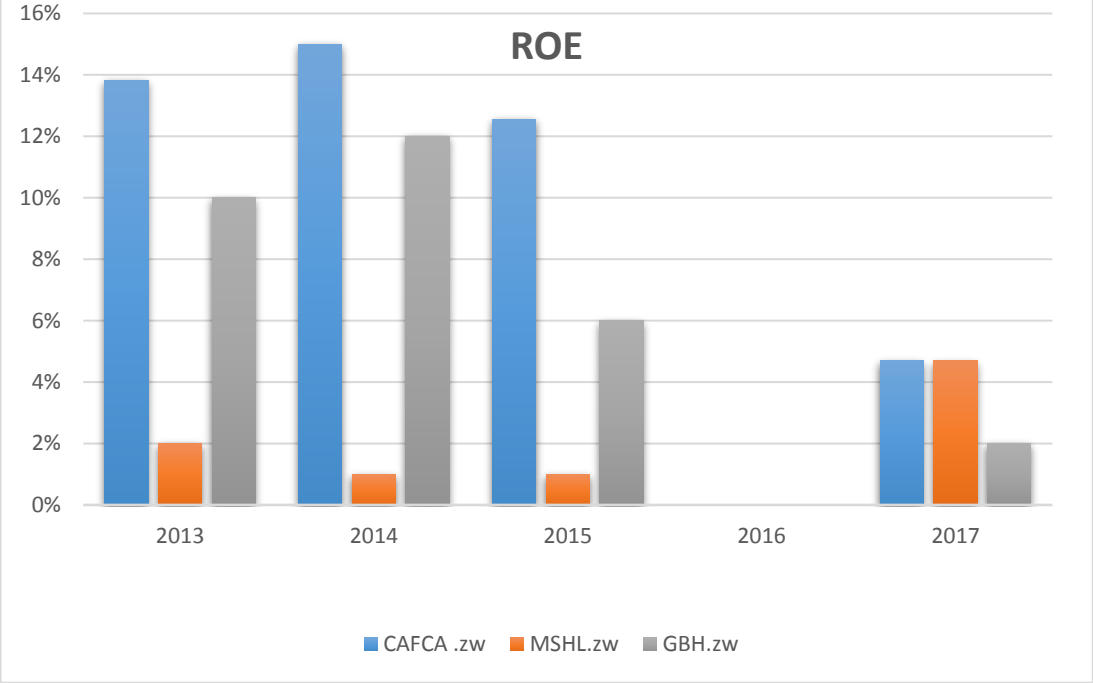
**. Correlation is significant at the 0.01 level (2-tailed).

Source: (Field Data 2019)

The Pearson correlations co-efficient between the Average ROA and GDP growth was 0.972at 99% significance level implying that ROA and GDP growth have a significant statistical relationship. This means that the two variables move in the same direction. This implies that an improvement in ROA of listed companies in Zimbabwe increases GDP growth.

The bar graph below show the trend analysis for ROE for the three companies under consideration.

Figure 4. 7: ROE Trend Analysis (2013 to 2017).

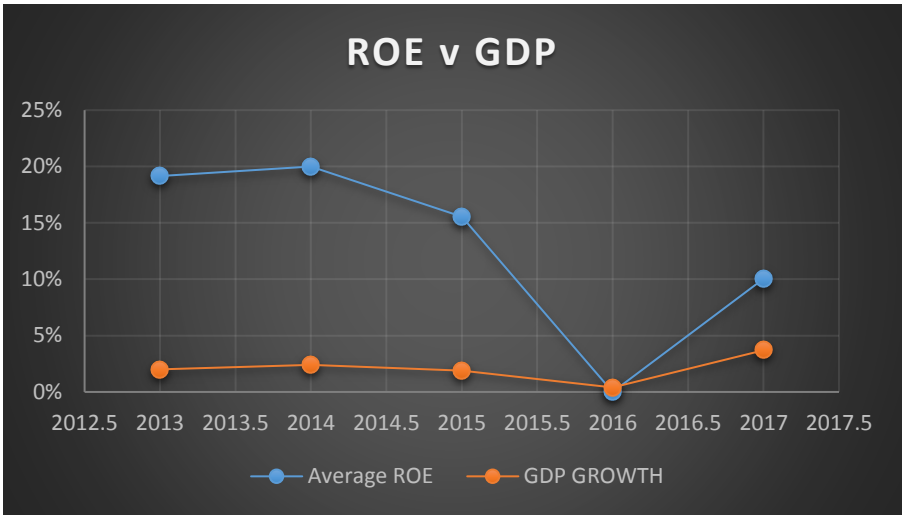


Source: (Field Data 2019)

The graph above exhibits the ROE between 2013 and 2017 for the respective companies. CAFCA outperformed Masimba Holdings and General Beltings over the whole period. Masimba Holdings on the other hand had the worst financial performance in terms of ROA over the period under consideration.

The line graph below depicts the relationship between average annual ROE and GDP growth over the period from 2013 to 2017.

Figure 4. 8: ROE v GDP Growth (2013 to 2017).



Source: (Field Data 2019)

The graph above shows that there is a positive relationship between ROE and GDP growth. Between 2013 and 2014, ROE increased by 1%, consequently GDP grew by 0.4%. Between 2015 and 2016, ROE slumped by 16% and GDP fell by 2%. Between 2016 and 2017, ROE rose from 0% to 10%, GDP also increased from 0% to 4%.

Table 4. 15: Correlations (ROE and GDP Growth)

		Return On Equity (%)	GDP Growth (%)
Return On Equity (%)	Pearson Correlation	1	.993**
	Sig. (2-tailed)		.001
	Sum of Squares and Cross-products	272.000	205.000
	Covariance	68.000	51.250
	N	5	5
GDP Growth (%)	Pearson Correlation	.993**	1
	Sig. (2-tailed)	.001	
	Sum of Squares and Cross-products	205.000	156.800
	Covariance	51.250	39.200
	N	5	5

**. Correlation is significant at the 0.01 level (2-tailed).

Source: (Field Data 2019)

The Pearson correlations co-efficient between the Average ROA and GDP growth was 0.993 implying that ROE and GDP growth have a significant statistical relationship. This means that the two variables move in the same direction. It also implies that an improvement in the ROE of listed companies in Zimbabwe increases GDP growth.

Table 4. 16: Correlations: Financial Performance v GDP Growth

Correlations

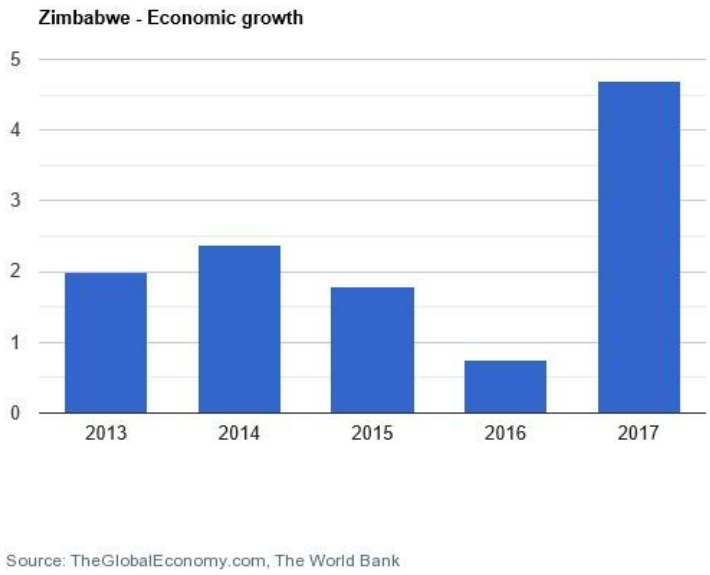
		Financial Performance (%)	GDP Growth (%)
Financial Performance (%)	Pearson Correlation	1	1.000**
	Sig. (2-tailed)		.000
	N	5	5
GDP Growth (%)	Pearson Correlation	1.000**	1
	Sig. (2-tailed)	.000	
	N	5	5

**. Correlation is significant at the 0.01 level (2-tailed).

Source: (Field Data 2019)

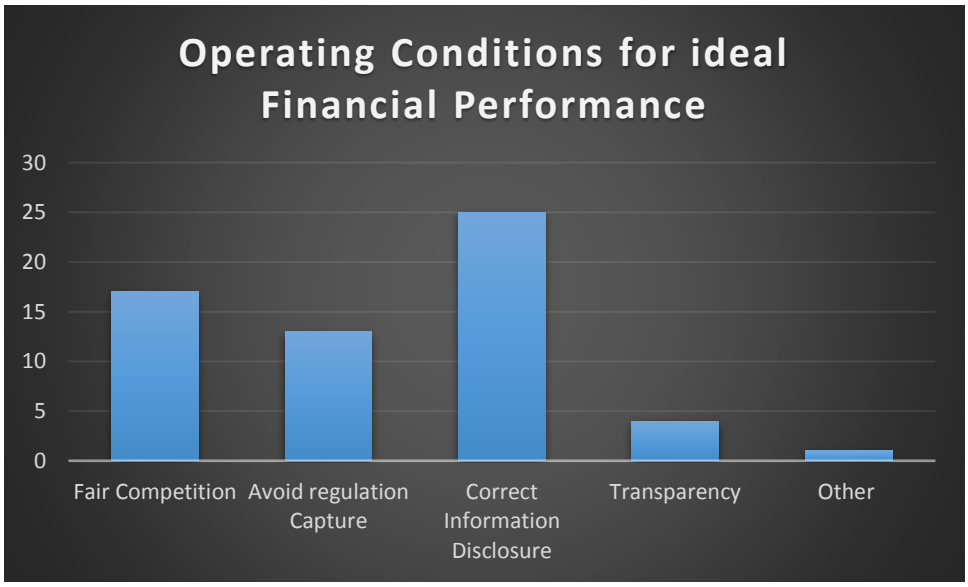
The Pearson correlations co-efficient between financial performance and GDP growth was 1, implying that Financial performance and GDP growth have a perfect statistical relationship. The two variables move in tandem. This also implies that an improvement in the financial performance of listed companies in Zimbabwe increases GDP growth. The bar graph overleaf shows the trend analysis for Economic Growth over the five years from 2013 to 2017. The year 2016 recorded the lowest GDP growth of 0.8%, which then rose to 4.6% in 2017. Between the years 2013 and 2015, the economic growth fluctuated at around 2%.

Figure 4. 9: Economic Growth Trend (2013 to 2017)



4.2.4 The necessary Conditions that should exist to enable the ideal performance of companies listed on the ZSE

Figure 4. 10: Operating Conditions for Ideal Financial Performance



Source: (Field Data 2019)

Seventeen respondents (28%) mentioned that fair competition is a critical condition that influences the financial performance of listed companies. Some companies are

privy to strategic resources due to non-economic reasons, hence other companies end up failing to access the same resources at a reasonable cost. It was also highlighted that there is need for disclosure of correct information in the market. Twenty-five respondents (42%) emphasized that more often firms announce false information, ranging from debt concealment and manipulation of all kinds of information including the profitability of the company and going concern issues. Thirteen respondents (22%) were of the view that regulation capture is a major factor that should be addressed in order for listed companies to perform at the best of their abilities and thereby contribute to economic growth. Only four respondents (7%) were of the view that transparency amongst stock market participants is vital for better financial performance and it avoids financial crisis in the future. Transparency is also deemed to allow investors to improve the quality of their expectations.

4.3 Discussion and Interpretation

The study analyzed empirically the financial performance of listed companies in Zimbabwe for the period from 2013 to 2017. To achieve this objective ROA and ROE were used as the measures of financial performance. ROA compares total earnings to the total assets and also measures the management's ability and efficiency in using the firm's assets to generate profits. It reports the total return accruing to all assets employed. ROE depicts the return to shareholders on the capital invested into the business. ROA and ROE are the most widely used measures of financial performance. These two measures reflect the major details of business performance in a universal manner, capturing both the profit and loss statement performance and the assets and equity required to run a business.

Financial Performance (ROA & ROE)

ROA and ROE are also less exposed to short-term fluctuations that usually occur on income statements since many assets involve long-term asset decisions that can be very difficult to play around with in the short term. This therefore enables decision makers to quickly focus attention on the assets required to run the business. A falling ROA and ROE is a sure sign of trouble around the corner, especially for growth companies. The two measures were calculated for the period under study in respect of the selected listed companies and an average of the two measures was calculated. The financial performance indicators revealed that there is a strong positive relationship between the financial performance of these companies and GDP growth as indicated by the correlation coefficients. In periods when financial performance (as measured by ROA and ROE) increased, GDP growth also increased, and when financial performance decreased, GDP growth shrunk. The Pearson correlation coefficient between financial performance and GDP growth was 1 implying that there is a perfect statistical relationship between the two variables. The study therefore established an existence of a positive relationship between the financial performance variables (ROA and ROE) for listed companies and economic growth in Zimbabwe.

Leverage

The results also indicated that leverage had influence on financial performance among listed firms in Zimbabwe. The Pearson correlation coefficient between firm leverage and financial performance was 0.375 implying that firm leverage and financial performance have a significant statistical positive relationship. The findings concur with that of Rehman (2013) who conducted a study in Pakistan. The research analyzed the relationship between leverage and financial performance of listed companies in

Pakistan. The findings indicated that there was a negative relationship of debt-equity ratio with net profit margin, ROE, and earning per share.

Firm Size

The findings also depicted that firm size had an impact on financial performance in the listed firms in Zimbabwe. The Pearson correlation coefficient between average firm size and financial performance was 0.549 indicating that there is also a significant statistical relationship between firm size and the financial performance of listed companies in Zimbabwe. Larger companies tend to perform far much better than smaller companies partly due to better access to strategic resources because of their sizes. The results of this study contradict with that of Niresh & Velnamy (2014) who carried out a study in Sri Lanka on firm size and financial performance. The study of listed firms in Sri Lanka showed that firm size has no profound impact on profitability of the listed firms in Sri Lanka.

Liquidity

Liquidity was also found to have the second from largest effect on the financial performance of listed companies in Zimbabwe. The Pearson correlation coefficient between average firm size and financial performance was 0.956, indicating that there is almost a perfect statistical relationship between liquidity and the financial performance of listed companies in Zimbabwe.

Firm Age

It was also established that Firm age has the largest effect on the financial performance of listed companies in Zimbabwe. The Pearson correlation coefficient between average firm age and financial performance was 1, indicating that there is a perfect statistical relationship between firm age and the financial performance of listed companies in Zimbabwe.

4. 4 Summary

Data collected from financial statements of CAFCA, Masimba Holdings Limited and General Beltings was presented in tables and graphs. An analysis of the financial performance of the companies was done using SPSS to establish whether there is a relationship between financial performance and economic growth. Financial performance was measured using ROA and ROE. Data from questionnaires and interviews conducted listed the major factors affecting the financial performance of listed companies and these included firm age, firm size, ownership structure liquidity and leverage. The results were presented using tables and analyzed using SPSS and charts. The analysis revealed that there is a strong positive relationship between financial performance and economic growth as evidenced by the correlation coefficient of 1 between financial performance and GDP growth. The major factors were established as liquidity, leverage, firm size and firm age.

CHAPTER 5 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study aimed to analyze the financial performance of companies listed on the ZSE between 2013 and 2017. The study also unearthed the major factors that affect the financial performance of these companies. Financial performance was measured using ROA and ROE. The data that was collected indicated that the major factors that affect financial performance of listed companies are firm age, ownership structure, liquidity, leverage and firm size, each with different intensity. Interesting outcomes were obtained from the study. A positive relationship was identified between financial performance of listed companies and economic growth as evidenced by the Pearson correlation coefficient of 1 between financial performance and GDP growth. Correlation analysis revealed that an increase in the financial performance of companies listed on the Zimbabwe Stock Exchange increases the rate of economic growth. Leverage was found to be one of the leading factors that affected the financial performance of listed companies in Zimbabwe. This chapter presents the discussion, conclusions, implications, recommendations and suggested areas for further research.

5.2 Summary

The research looked at the financial performance of listed companies in Zimbabwe as well as the major factors affecting financial performance between 2013 and 2017. Reviewed literature revealed that there are various techniques that can be used to measure the financial performance of listed firms. Amongst these are the various ratios, which include profitability ratios, solvency ratios and liquidity ratios. Reviewed literature also indicated that stock market components (primary markets, secondary markets and financial institutions) of the financial system play an important role in the allocation of resources resulting in improved economic growth (Greenwood &

Jovanovic, 1990; Greenwood & Jovanovic, Financial development, growth & the distribution of income, 1990). The primary market represents the market where new securities that have never been previously issued, are offered. Both the new companies and the existing ones can raise capital on the new issue market. On the secondary market, existing securities are purchased and sold. Lastly, financial institutions provide medium and long-term loans to big businesses.

A sample size of sixty participants was drawn from a total population of 103 participants, sixty-six Zimbabwe Chartered Financial Analysts and thirty-seven registered Stockbrokers in Zimbabwe. Of the sixty participants, thirty were stockbrokers and thirty were Zimbabwean Chartered financial analysts. Convenience sampling was used to distribute the questionnaires. Questionnaires and interviews were used as data gathering instruments. Sixty questionnaires were responded to giving a response rate of a 100 percent. The interviews also got the same response rate as they were done immediately after the completion of the questionnaire. Analyses of the findings of the research were done using SPSS, tables and charts.

The study revealed that there is a perfect positive relationship between the financial performance of listed companies in Zimbabwe and economic growth as evidenced by a perfect Pearson correlation coefficient between financial performance (as measured by ROA and ROE) and economic growth (as measured by GDP growth).The major factors that affect the financial performance of listed companies in Zimbabwe were also explored. The Pearson correlation coefficients between the major factors and financial performance were as follows: firm age 1, leverage 0.375, liquidity 0.956, and firm size 0.549. All the factors identified had statistically strong positive relationships

to financial performance. These major factors should then be followed through closely to ensure that listed companies in Zimbabwe contribute the most to economic growth.

Firm Age: Correlation analysis revealed that firm age and financial performance were perfectly statistically positively related. As firms grow in age, their financial performance also improves mainly due to experience and establishment.

Leverage*:* Correlation analysis revealed that firm leverage and financial performance were statistically positively related with a co-efficient of 0.375. As firms finance their operations with debt, their operations become efficient mainly because debt is cheaper source of finance. However, beyond a certain point, increases in debt financing may lead to bankruptcy according to the tradeoff theory on capital structure.

Liquidity*:* Correlation analysis revealed that firm liquidity and financial performance were statistically positively related with a correlation coefficient of 0.956.An increase in liquidity increases financial performance of entities listed on the Zimbabwe Stock Exchange.

Firm Size: Correlation analysis revealed that firm size and financial performance were statistically positively related with a coefficient of 0.549. An increase in the size of a firm listed on the Zimbabwe Stock Exchange increases its financial performance.

Financial performance measurement and evaluation has drawn the attention of man from the very past. The aim of performance assessment is to identify weaknesses and strengths, and consequently modify, improve, and promote the performance of businesses and ultimately contribute to the growth of the economy. Nowadays, given

the increasing growth and importance of organizations in the community, the evaluation of the performance of organizations and managers has come to focus on financial performance and various indicators have been introduced as the criteria measurement of the organizations' performance. Profitability and liquidity are examples of these assessment criteria.

Performance appraisal is not limited to the individuals' evaluation, but any system or organization can be evaluated based on their goals to measure their success rate in achieving those objectives. In this regard, the assessment of the companies listed in the capital market (stock market) is of particular importance since it has a crucial impact in guiding the investors to choose stocks on one hand, and also helping the managers to identify the current status of the company and taking measures to prevent the crisis as well as initiatives for productivity growth on the other hand. Therefore, sufficient care should be made in choosing the best method from different methods of evaluating the financial performance of listed companies.

5.3 Conclusions

This study analyzed the financial performance of listed companies in Zimbabwe. ROA and ROE were used to measure the financial performance of the listed companies. The research established that there is a perfect positive relationship between economic growth and the financial performance of listed companies as evidenced by the Pearson correlation coefficient of 1 between financial performance (as measured by ROA and ROE) and economic growth (as measured by GDP growth). This suggests that for a significant growth to be achieved in an economy, the main focus of policy makers should be on measures to promote excellent financial performance for listed

companies. The factors that affect financial performance have to be taken into consideration for firms to be successful. Firm size, Liquidity, firm age and leverage were found to have positive statistical relationships with financial performance as evidence by Pearson's correlation. The Pearson correlation coefficients between the major factors and financial performance of listed companies was as follows: firm age 1; leverage 0.375, liquidity 0.956 and firm size 0.549. The research therefore concluded that there is strong positive relationship between financial performance of companies listed on the ZSE and economic growth.

The result for each indictors of financial performance showed different magnitudes of impact on economic progression. The Pearson correlation coefficient between ROA and GDP growth was 0.972 and between ROE and GDP growth was 0.993.

Based on research findings, the study concluded that company size has a significant positive effect on financial performance. Large companies are found to have a competitive advantage over small firms as large firms have a wide array of resources and also enjoy economies of scale, hence are in a better position to compete in the market. However, for firms that become extremely large, the effect of size could be negative due to bureaucracy and other reasons (Yuqi, 2007). Finally, the study concludes that company age has a significant positive effect on financial performance. In addition, the study infers that age helps firms to become more efficient, because with time firms discover what they are good at and find better ways of doing things.

5.4 Implications

These results depict that the financial performance of listed companies in Zimbabwe has a positive relationship with the growth of the Zimbabwean economy in the long term. Policies, measures and efforts geared towards improving the financial performance of companies listed on the Zimbabwe stock Exchange should be put in place to enhance economic development and growth of the country's economy. The study is in the opinion that government should make the environment conducive for business. This includes making the monetary policy stable and predictable. In addition, the findings obtained are expected to help academics in doing further study, to fill the gap available in this body of knowledge. The studies also serve as guide for future reference for both practitioners and academicians who are doing research on related topics.

5.5 Recommendations

The findings from this study raise the following recommendations in order to enhance the financial performance of listed companies in Zimbabwe and thereby enhance economic growth. These recommendations are derived from the major factors that have been found to affect the financial performance of listed companies. These are also aligned to the objectives of the study. The idea is to ensure that listed companies in Zimbabwe operate at the maximum of their abilities and ultimately contribute to the growth of the economy.

5.5.1 Financial Performance of Listed Companies

- Listed companies in Zimbabwe should invest more of their resources towards increasing their asset base to ensure that they attain desired asset base that would

maximize their profitability. Specifically, the managers of the listed firms should focus on growing their firms to ensure that they enjoy the economies of scale associated with large firms, also to attract good management and therefore improve their financial performance.

5.5.2 Major factors affecting financial performance of listed companies

- **Liquidity:** The stock markets need to increase the number of listed companies, which in turn increases the liquidity in the stock market. Stock markets liquidity in turn provides liquidity to the economy, which enables employment of high production techniques that in the long-term increases investment opportunities and hence economic growth. The study also recommends that companies should develop sound techniques of managing current assets to ensure that neither insufficient nor unnecessary funds are invested in current assets as maintaining a balance between short term assets and short-term liabilities is critical.

- **Leverage**: The study recommends that listed firms in Zimbabwe should enhance their financial leverage practices to ensure that they become more profitable and survive in the market. Particularly, the managers of the companies listed at the ZSE should employ minimal debt level or use an optimal debt level, which will not affect the firm's performance due to the inverse relationship between financial leverage and financial performance. Companies should also consider borrowing less and use more of their internal funds to enhance the firm financial performance. Listed firms should also determine an optimal debt level that balances the benefits of debt against the costs of debt. Firms should avoid situations where they are highly leveraged since this may lead to bankruptcy if they are unable to service their debt.

- **Firm Size***:* Listed companies in Zimbabwe should seek to grow their assets in order for them to improve financial performance. Furthermore, the study also recommends that companies should expand in a controlled way with the aim of achieving an optimum size to enjoy economies of scale, which will ultimately result in a higher level of financial performance. However, if a firm expands beyond the optimum size diseconomies of scale will set in and this can result in a decline in the financial performance of the firm.

- **Firm Age***:* Finally, companies that are too old should put in place measures to counter the new changes in market conditions and avoid bureaucracy in order to stabilize on performance whereas new firms should have strategies in place to market and stabilize in order to have a competitive advantage over old companies.

5.5.3 Relationship between financial performance of listed companies and economic growth.

The existence of a linear relationship between financial performance of listed companies and economic growth implies that to drive economic growth, the financial performance of listed companies should be improved. This can be done through learning from other economies that have done very well lately. Partnering with investors from developed economies and get to know how they have done it is recommended. There is also need for process reviews within companies, copying up with technology to meet excellent standards and eliminate all sorts of wastages.

5.5.4 Necessary operating conditions to enhance the ideal financial performance of listed companies.

- The policy makers in Zimbabwe should come up with a policy that makes sure that more efforts are geared towards improving efficiency and thereby lowering transaction costs.
- Government policies on the regulation of listed companies should be consistent in order to encourage investment in these firms and to avoid unfair competition and regulation capture.

5.6 Suggestions for Further Research

For the sake of establishment of dependable, reliable and comprehensive conclusion on the analysis of financial performance of listed companies on the ZSE and their role in the growth of the Zimbabwean economy, it is suggested that further studies using a larger sample of the listed firms should be carried out. This will permit unquestionable inferences from the sample result of the population. A similar study can be done for a longer period to come up with conclusive results. Another research area that could be studied is to find out the factors that affect the financial performance of non-listed firms, specifically family owned enterprises where the incidence of business failure is greater than in larger corporations.

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APPENDIX 1: QUESTIONNAIRE SURVEY INSTRUMENT

QUESTIONNAIRE

(*Indicate your responses to the statements below where 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5= Strongly Agree)*

1. **Establish the financial performance of listed companies.**

Questions	**1**	**2**	**3**	**4**	**5**
Return on Assets (ROA) is a good measure of a firm's financial performance.					
A higher ROA indicates better performance for a company.					
Return on Equity (ROE) is a good measure of a firm's financial performance.					
A higher ROE indicates better performance for a company.					

2. **Identify the major factors that affect the financial performance of companies listed on ZSE.**

2.1 What are the major factors that affect the financial performance of listed companies in Zimbabwe?

Factor	**Explanation**

3.0: Establish the relationship between the financial performance of listed companies and economic growth.

3.1 What is the impact of the financial performance of listed companies on economic growth? Explain if there is a notable relationship between financial performance of listed companies and economic growth.

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4.0 Establish the necessary operating conditions that should exist to enable the ideal financial performance of listed companies in Zimbabwe.

4.1Explain the operating conditions that should be in existence in order for listed firms to improve their financial performance?

Condition	**Brief explanation**

APPENDIX 2: INTERVIEW GUIDE

Introduction

Welcome and thank you for your participation today. My name is Priscila Shumba and I am a student at Africa University conducting my research in partial fulfillment of the requirements for the degree of Executive Masters in Business Administration. Thank you for completing the surveys and this follow-up interview will take about 25 minutes and will include 8 questions regarding your experiences in the financial performance of companies listed on the Zimbabwe Stock Exchange and the major factors that affect financial performance of listed companies. If at any time during the interview you wish to discontinue the interview, please feel free to let me know. All of your responses are confidential. Your responses will remain confidential and will be used for academic purposes only.

Demographics

1. Occupation CFA Stock broker
2. Experience in years 0-5yrs 6-10yrs 11-15yrs

Questions

3. What are factors that affect the performance of companies listed on the ZSE?
4. What is the relationship between the growth of the economy and financial performance of companies listed on the ZSE?
5. What are the necessary operating conditions that enhance the financial performance of companies listed on the ZSE?
6. Before we conclude this interview, is there anything else you would like to share?

APPENDIX 3: AUREC APPROVAL LETTER

AFRICA UNIVERSITY
INVESTING IN AFRICA'S FUTURE

AFRICA UNIVERSITY
RESEARCH ETHICS COMMITTEE (AUREC)

P.O. BOX 1320, MUTARE, ZIMBABWE • OFF NYANGA ROAD, OLD MUTARE • TEL: (+263-20) 60075/60026/61611 • E-MAIL: aurec@africau.edu • WEBSITE: www.africau.edu

Ref: AU822/19

25 February, 2019

AFRICA UNIVERSITY
RESEARCH ETHICS COMMITTEE (AUREC)
25 FEB 2019
APPROVED
P.O. BOX 1320, MUTARE, ZIMBABWE

Priscillar Shumba
C/O CBPLG
Africa University
Box 1320
Mutare

RE: **AN ANALYSIS OF FACTORS AFFECTING THE FINANCIAL PERFOMANCE OF COMPANIES LISTED ON THE ZIMBABWE STOCK EXCHANGE**

Thank you for the above titled proposal that you submitted to the Africa University Research Ethics Committee for review. Please be advised that AUREC has reviewed and approved your application to conduct the above research.

The approval is based on the following.

a) Research proposal
b) Questionnaires
c) Informed consent form

- **APPROVAL NUMBER** AUREC822/19

This number should be used on all correspondences, consent forms, and appropriate documents.

- **AUREC MEETING DATE** NA
- **APPROVAL DATE** February 25 2019
- **EXPIRATION DATE** February 25, 2020
- **TYPE OF MEETING** Expedited

After the expiration date this research may only continue upon renewal. For purposes of renewal, a progress report on a standard AUREC form should be submitted a month before expiration date.

- **SERIOUS ADVERSE EVENTS** All serious problems having to do with subject safety must be reported to AUREC within 3 working days on standard AUREC form.
- **MODIFICATIONS** Prior AUREC approval is required before implementing any changes in the proposal (including changes in the consent documents)
- **TERMINATION OF STUDY** Upon termination of the study a report has to be submitted to AUREC.

Yours Faithfully

MARY CHINZOU – A/AUREC RESEARCH ETHICS OFFICER
FOR CHAIRPERSON, AFRICA UNIVERSITY RESEARCH ETHICS COMMITTEE